

Reputation Management and Seniority Systems in Firms*

Munetomo Ando[†]
ARISH-NUPRI, Nihon University

April 18, 2009

Abstract

This paper studies the role of a seniority based profit and task allocation system in a firm. The firm chooses either a farsighted or a shortsighted action in each period. The former corresponds to keeping or rebuilding a good reputation, while the latter to cheating consumers or giving up rebuilding. We assume that even if the firm chooses the farsighted (shortsighted) action, it may get a bad (good) reputation with positive probability. In this situation, we show that an efficient seniority system helps to maintain a good reputation in the sense that the farsighted action profile is sustainable in equilibrium. This is because under the seniority system, the decision-maker of the firm gives attention to both short- and long-term performances.

JEL classification numbers: C72, C73, D82, J31, M14.

Keywords: Seniority system, overlapping generations game, reputation management.

*I would like to thank seminar/conference participants at Aoyama Gakuin University, the Contract Theory Workshop, GRIPS, Kobe University, Nihon University, OEIO at University of Tokyo, and Otaru University of Commerce, as well as Shinsuke Kambe, Junichiro Ishida, Masaki Nakabayashi for helpful comments and suggestions.

[†]Address: Advanced Research Institute for the Sciences and Humanities (ARISH), Nihon University, 12-5, Goban-cho, Chiyoda-ku, Tokyo 102-8251, Japan, Tel. +81-3-5275-9609, Fax. +81-3-5275-9204, E-mail: ando.munetomo@nihon-u.ac.jp.