

Appendix

About the Research Setting

In this Appendix, I provide some additional details about the key actions that took place in the summer of 2004. As explained in the main text, I met with top management and key HR staff members (nine individuals in total, including ServiCo's CEO) to present the results of my analyses of ServiCo's employee performance-reward data and offer recommendations to remedy the observed demographic disparities in merit-based pay decisions. After that one-day meeting of presentations and brainstorming, they decided to adopt a set of measures introducing pay accountability and transparency into their existing performance-reward system.

For the interested reader, Figure A1 specifically describes how both organizational accountability (column 3) and transparency (column 4) in the performance-reward system have operated at the company, division, and work unit levels of ServiCo since November 2004. Each cell (in columns 3 and 4) summarizes the particular form that organizational transparency and accountability took at ServiCo concerning the *processes/criteria* and *outcomes* dimensions developed earlier in the article (see Figure 1 in the main text). The first column of Figure A1 presents each of the relevant company levels while the second column presents the main individuals involved in the design/implementation of pay accountability and transparency at ServiCo (the *audience* dimension). To protect the anonymity of the company, no additional details about the organizational procedures and individuals (including the selection of committee members, timetables, and specific support received by the committee from top management at ServiCo) are included in this article.

[Figures A1 Here]

Methodology and Robustness Checks

In addition to the models presented in the main tables of the article, I ran additional analyses to ensure that this study's findings are robust. The purpose of this Appendix is to discuss in detail some of these key robustness checks and analyses that address potential methodological concerns. These analyses are cross-referenced with their description in the paper's main text (mostly in the *Additional Analyses and Remarks* section). The Appendix's sub-headings indicate the importance of each set of additional analyses.

1. Interaction Regression Models

In order to test Hypothesis 1 by directly comparing the effects of demographic variables on pay growth *before* and *after* the new measures were introduced, I estimated two types of interaction models using the entire data set comprising the 1996-2009 period. These models are reported in Table A1.

[Table A1 about Here]

The first type of interaction model consists of a regression model as specified in equation (2) in the main text that adds a set of two-way interaction terms between a pre-2004 (observation) dummy variable (which takes the value of 1 for observations before 2004, or the value of 0 for observations after 2004) and each demographic (dummy) variable under study (that is, female, African American, Asian American, Hispanic, and non-U.S.-born). In this particular interaction model, the estimated coefficients of the demographic variables measure the effects of demographics on pay growth *only* after 2004, while the demographics-time period interaction coefficients (demographics x pre-2004 dummy variable) measure the effects of demographics *only* before 2004.

The main coefficients of this first type of interaction model are reported in Model 1 of Table A1. (under the heading “Model 1: Only Demographic-Time Period Interactions” in columns 1 and 2). As can be seen, only the coefficients for the interaction of demographics x pre-2004 dummy variable (that is, the effects of demographics during the period before 2004, see column 2 of Table A1) are significant, and their magnitudes are similar to the magnitudes of the coefficients of demographics in the pre-2004 model of the separate analysis (see column 2 of Table 2). In contrast, the effects of demographics during the period after 2004 (see column 1 of Table A1) are not significant, similar to the insignificant coefficients of demographics in the post-2004 model of the separate analysis (see column 5 of Table 2). In direct support of Hypothesis 1, the incremental chi-square test comparing the model *with* and *without* demographic-time period interactions (i.e., testing the significance of including the interaction terms of demographics x pre-2004 dummy variable when predicting pay growth) has a value of 21.18 (df = 5) and is significant at the 0.001 level.

The second type of interaction model I estimated includes all the two-way interaction terms between the pre-2004 dummy variable and all independent variables including the demographic variables. As can be seen in Model 2 of Table A1 (under the heading “Model 2: All Two-Way-Time Period Interactions” in columns 3 and 4), substantially similar results are found as those reported in Model 1 of Table A1. Overall then, both the separate models in Table 2 and the alternative interactional analyses in Table A1 provide empirical support for Hypothesis 1.¹

2. Employee and Manager Turnover

Employee Selection: As the dataset is not balanced (some workers are terminated earlier than others during the studied period), unobserved employee heterogeneity might distort the results if certain individual employees (associated with the outcome variable) were missing due to their departure from

¹ In this Appendix (Part 3), I also present the models testing whether demographics affect promotions and terminations over the tenure of an employee after controlling for employee performance before and after the introduction of the new measures (that is, Hypothesis 1 regarding promotions and terminations). These results also support Hypothesis 1.

the company. To address this concern, I re-ran the main models controlling for employee turnover. First, I ran the pay growth models correcting for employee turnover as I explain in the second half of the *Pay Growth* sub-section within the *Methodology* section. These models are reported in columns 2 and 3 of Table 2 for the pre-2004 analysis and in columns 5 and 6 of Table 2 for the post-2004 analysis. As can be seen in Table 2, the demographic coefficients do not change substantially in magnitude or significance when compared with the main coefficients reported in the main Table 2 of the article.

Looking at the coefficient for the estimated hazard rate in the pay growth model (second column of Table 2 in the main article), I find that the likelihood of turnover is associated with lower pay growth over time. In other words, the more likely he or she is to leave ServiCo, the lower an employee's pay increase is over time (the coefficient is negative and barely significant at the 0.1 level). In looking at the results of the turnover hazard rate part of Model 2 (third column of Table 2 under the "Turnover rate model (Cox regression)" heading), I do not find statistically reliable evidence of high performers being more likely to leave this company.² Instead I find that "unacceptably performing" workers and employees whose "performance requires improvement" are 13 and 3 times respectively more likely to leave than employees whose performance "meets established expectations for the position" (both coefficients are significant at the 0.001 level).³ As in the pay growth models, tenure and annual salary the previous year have significant positive effects on turnover. The longer the tenure of the employee, the less likely he or she is to leave ServiCo. Higher paid employees are also less likely to turn over ($p < 0.001$ level). The model reports that Asian American and Hispanic employees are more likely to turn over (significant at the 0.05 and 0.1 levels respectively).

Second, I replicated the main pay growth regression models using a balanced sub-sample of employees who were in the company before, during, and after ServiCo went through the adoption of the new organizational measures. This included a sample of 3,193 employees. As can be seen in Table A2 (columns 1 and 2), the results are, once again, substantially similar to those reported in Table 2.

[Table A2 about Here]

Another way of testing my hypotheses consisted of analyzing only the sample of employees who were working for ServiCo prior to 2004 (but left after 2004; $N_{1996-2003}=2,344$) in the pre-2004 analyses, and analyzing the sample of employee who were hired by ServiCo after 2004 in the post-2004 analyses (thus, not working for ServiCo before 2004; $N_{2004-2009}=1,382$). With this non-experimental approach, I was therefore able to exploit a natural experiment regarding employee selection and turnover in this particular company setting (for similar, non-experimental approaches, see, e.g., Mouw 2002, 2003;

² For more information about the Cox regression model, see Cox 1972, 1975.

³ $13 = \exp(2.6)$ and $3.24 = \exp(1.17)$.

Castilla 2011). This modeling approach allows for approximating the study of allocating workers' merit-based pay increases under two organizational scenarios: 1) Pre-2004 scenario (lack of organizational accountability and transparency in the performance-reward system) and 2) Post-2004 scenario (presence of organizational accountability and transparency). As can be seen in Table A2 (columns 3 and 4), the results are substantively similar to those reported in the main analyses: Only after the 2004 company intervention do I find that the demographic variables are not significant in predicting merit-based pay rewards. Along similar lines, I also analyzed the sample of employees who were working for ServiCo *only* in the year 2003 in the pre-2004 analyses, and *only* in the year 2005 in the post-2004 analyses. Once again, as can be seen in columns 5 and 6 of Table A2, the results are substantially similar to those reported in the article: Specifically, regardless of the sub-sample of employees I analyzed, I still find evidence that after the introduction of accountability and transparency procedures, there was a significant reduction in the demographic-based gap in merit-based pay.

As an additional robustness check, because the main findings may also reflect differences in employee promotion rates, all of the above models were estimated correcting for differences in promotion chances. Since promotion (like turnover) may change the composition of the workplace, the observed pay growth when measured across a cohort of workers (not for any particular individual) could be entirely due to population heterogeneity (Tuma 1976; Jovanovic 1979; Castilla 2005).⁴ I control for the promotion of employees over time by including the previously estimated promotion hazard when I estimated the main models; this results in a two-stage estimation procedure (for a similar approach, see Castilla 2005; to learn more about this method, see Lee 1979, 1983, Lee, Maddala and Trost 1980, and Lee and Maddala 1985). I always found results similar to the ones presented in the article (results are available upon request).⁵ The promotion dummy variable included in the model is positive but insignificant in all models.

Managerial Selection: Because the pay gap may have been reduced because of managerial turnover and/or managerial sample selection bias, I estimated a number of models to increase confidence in the results. Additional analyses of the data do not indicate that my results are due to changes in the composition of middle management after November 2004, either through the hiring of new managers (65 new hires), the internal promotion of employees to direct managers (72 internal promotions), or the termination of managers (189 terminations). Regardless of whether I include or exclude the newly hired

⁴ As has been noted in the literature, because employee performance is “likely to be positively correlated with promotions, raises, and bonuses, the tradeoff between these different measures likely would be unchanged even with performance controls—and may be stronger [...]” (Dencker 2009, p. 482).

⁵ Because of potential issues related to the inclusion of the predicted value from a non-linear model in any analysis (see Hausman 2001), I also tested for the effect of turnover across other different specifications, functional forms, and measures of turnover; similar results were always found (available upon request).

or promoted managers in the analyses, I obtain substantively similar results to those reported after 2004 in the main tables. Importantly, I also re-ran the same set of (before and after) analyses only for the sample of managers at ServiCo before, during, and after the new procedures were implemented in 2004 (87.8% of the entire population of managers during the period under study). As can be seen in Table A3, the results are substantively similar to those reported in the main tables. For simplicity, Table A3 reports only the demographic coefficients of interest for the before and after analyses.

[Table A3 about Here]

I also re-ran the same set of pre-2004 analyses only for the sample of managers who left ServiCo after November 2004 to ensure that this sub-sample of individuals was not behaving differently from the sample of managers who stayed with ServiCo after November 2004. Once again, the pre-2004 results are substantively similar to those reported in the first two columns of Table 2 (available upon request).

3. Employee Promotions and Terminations

In addition to the models estimating pay growth, I estimated various event history models that explore the impact of performance evaluations on both promotion and termination decisions *before* and *after* the introduction of organizational accountability and transparency into pay decisions. Thus, I estimated two sets of Cox regression models as specified in the equation:

$$\pi(t) = \alpha + \beta_0 \ln(w_{i,t-1}) + \beta_1 P_{i,t-1} + \beta_2 X_{i,t-1} + \beta_3 Z_{i,t-1} + \varepsilon_{i,t}$$

In the first set of models, the dependent variable is the hazard rate of whether the employee is promoted (1 if the employee is promoted, 0 otherwise). In the second set, the dependent variable is the hazard rate of whether the employee is terminated (1 if the employee is terminated, 0 otherwise).⁶ Given that an employee can be promoted several times during her/his tenure at the company, this career outcome process is modeled as a series of repeatable events. Once again, these models are estimated for the population of employees *before* (1996–2003) and *after* (2005–2009) the new procedures were adopted. (In preliminary analyses, all equations reported in this article were estimated simultaneously as a robustness check [including the estimation of competing risk models; to learn about these models, see, e.g., Castilla 2007]. The same results were found.)

In Table A4, I present the models testing whether demographics affect promotions and terminations over the tenure of an employee after controlling for the level of employee performance *before* and *after* the introduction of the new measures in the performance-reward system (that is, Hypothesis 1 regarding promotion and termination decisions). Table A4 reports the results of several Cox regression models. The

⁶ Unfortunately, ServiCo did not keep systematic data on whether these terminations were employees who quit or employees who were fired. Two HR managers emphasized that most of the turnover in the organization was voluntary and estimated less than 10 percent of overall job terminations to be involuntary.

first two columns of Table A4 present the models *before* the introduction of the organizational measures. The last two columns present the same models *after* their introduction.

[Table A4 about Here]

The first column of Table A4 presents the coefficients for employee termination (375 in total). As in the pay growth models, tenure and annual pay the previous year have significant effects on turnover. The longer the tenure of the employee, the less likely she or he is to leave ServiCo. Higher paid employees are less likely to turn over ($p < 0.001$). Additionally, I find that “unacceptably performing” workers are almost 14 times more likely to leave than employees whose performance meets established expectations for the job ($p < 0.001$). Employees whose “performance requires improvement” are about three times more likely to leave compared to those whose performance met established expectations for the job ($p < 0.001$). The termination model also reports weak demographic effects: Asian Americans and Hispanics are more likely to turn over ($p < 0.05$ and $p < 0.10$ respectively). When examining the results regarding promotion (second column of Table A3), I find that most performance ratings are not significant. Only the “outstanding performance” rating is positive and significant ($p < 0.05$). In addition, only the non-U.S.-born variable is barely significant in explaining promotions ($p < 0.10$).

Regarding the results of my analyses of employee terminations (309 in total) and promotions (279 in total) *after* the introduction of the new measures (the last two columns of Table A4), I find that the magnitude of the demographic effects goes down and becomes insignificant in explaining terminations and promotions after controlling for the level of employee performance. Consequently, my analyses also offer support for Hypothesis 1 when examining employee promotions and terminations.

It is worth noting that after the introduction of accountability and transparency measures the employee performance variables are associated with large and significant predictors of promotions and terminations. In the case of terminations, for example, I find that “unacceptably performing” employees are 17 times more likely to leave than employees whose performance meets established expectations for the position ($p < 0.001$). Employees whose “performance requires improvement” are almost five times more likely to leave compared to those whose performance met expectations for the position ($p < 0.001$). “Outstanding” and “good and reliable” performers are now significantly less likely to be terminated (these two performance categories were not significant in reducing termination rates before the introduction of organizational accountability). In the case of promotions, employees with “outstanding performance” are 50 percent more likely to be promoted than those whose performance “meets expectations for the position” ($p < 0.001$).

4. The Distribution of Performance Evaluations: Before and After 2004

At ServiCo, I found that the distribution of performance ratings did not significantly change by demographic group nor did it change over time. One concern when evaluating the introduction of organizational accountability and transparency into the performance-reward system is that such changes may affect the shape of the performance ratings by demographic group. If this was the case, this would solve the unequal distribution of rewards (based on demographics) problem when it comes to the link of performance to pay but would introduce demographic biases in the way employees are evaluated and rewards distributed based on their performance instead. That would have been a concern in itself.

In this setting, I find that only the monetary amount paid for those ratings changed over time. Pre-2004, the demographic variables play a significant role. Post-2004, those demographics do not significantly predict any difference in the amount paid to employees, *ceteris paribus*. For example, in the year 2001, the average employee performance rating was approximately 4 (with a standard deviation of 1.15). In 2003, the average rating was slightly lower (3.96) with a higher standard deviation (1.37). In 2003, the frequency of all possible evaluation outcomes for the 5,904 employees evaluated in the sample under study was the following: About 36 percent of all evaluations fall in the top performance category 5 (that is, “Performance is clearly and consistently outstanding”); 36 percent fall in the performance category 4 (“Performance is reliable and consistently meets expectations for the job”); 18 percent in the middle performance category 3 (“Performance consistently meets established expectations for the job”); about 10 percent fall in the two lowest performance categories (with less than one percent in the lowest category 1, “Performance is unacceptable for the job and important improvement is required”). The distribution of performance ratings does not change (in a statistically significant way) its shape when it is examined by employee gender, race, or foreign nationality (available upon request).

Table A1.

Interaction Regression Models Predicting Annual Pay Growth: *Before* and *After* the Introduction of Organizational Accountability and Transparency into the Performance-Reward System at ServiCo

Independent variables (a)	Model 1: Only Demographic-Time Period Interactions		Model 2: All Two-Way Time Period Interactions	
	Effects After 2004 (d)	Time Period Interactions: Effects Before 2004 (e)	Effects After 2004 (d)	Time Period Interactions: Effects Before 2004 (e)
<i>Constant</i>	2.709 ***	-0.231 *	2.748 ***	-0.373 *
<i>ln(Annual salary) (t-1)</i>	0.823 ***		0.826 ***	-0.004
<i>Tenure</i>	0.003		0.003	0.003
<i>Age</i>	0.002		0.001	-0.004
<i>Part time</i>	0.021		0.019	-0.005
Performance rating (b):				
<i>Unacceptable (rating of 1)</i>	-0.039		-0.034	0.005
<i>Required improvement (rating of 2)</i>	0.022 ***		0.023 ***	-0.038
<i>Good and reliable (rating of 4)</i>	0.032 ***		0.031 ***	-0.016
<i>Outstanding (rating of 5)</i>	0.039 ***		0.041 ***	-0.017
Demographics:				
<i>Female</i>	-0.002	-0.004 **	-0.002	-0.004 **
<i>African American</i>	-0.002	-0.004 ***	-0.002	-0.004 ***
<i>Asian American</i>	0.001	0.001	0.001	0.001
<i>Hispanic</i>	-0.002	-0.005 ***	-0.002	-0.005 ***
<i>Non-U.S.-born</i>	-0.003	-0.006 ***	-0.003	-0.006 ***
χ^2 statistic	806322 ***		828632 ***	
P > χ^2	0.000		0.000	
Total number of employees (c)	5,104 during 1996-2003 and 5,719 during 2005-2009			

Notes: (a) All models include job title, work unit, and manager fixed effects. They also include dummy variables for highest educational level achieved and marital status. The omitted category for highest educational level is bachelor's degree; for demographics, it is U.S.-born white male employee, and for marital status, it is single.

(b) The omitted category for performance rating is a rating of 3 ("performance consistently meets established expectations for the job").

(c) This is the number of employees who stayed in the company for at least two years during the period under study and consequently they can be studied in the pay growth models.

(d) This "Effects After 2004" column reports the effects of each relevant independent variables under study on pay growth after including the pre-2004 variable (observation) dummy variable in the model (which takes the value of 1 for observations before 2004, or 0 for observations after 2004).

(e) This "Effects Before 2004" column reports the effects of the two-interaction terms between the pre-2004 (observation) dummy variable and each of the relevant independent variables under study. Because the pre-2004 dummy variable is binary (0/1), these effects also represent the difference between the effect of each relevant independent variable on pay growth after and before 2004.

*** $p < 0.001$ ** $p < 0.01$ * $p < 0.05$ † $p < 0.1$ (two-sided t-tests).

Table A2.

Additional Models Predicting Annual Pay Growth: For Different Sub-Samples of Employees at ServiCo *Before* and *After* the Introduction of Organizational Accountability and Transparency into the Performance-Reward System

Independent variables (a) (c)	Sample of Employees Working at ServiCo during 1996-2009		Sample of Employees Only Working at ServiCo during One of the Two Periods—either Before or After		Sample of Employees Only Working at ServiCo in the Year Before (2003) or the Year After (2005)	
	Before (1996-2003)	After (2005-2009)	Before (1996-2003)	After (2005-2009)	Before (Only 2003)	After (Only 2005)
<i>Constant</i>	2.285 ***	2.660 ***	2.285 ***	2.657 ***	2.284 ***	2.657 ***
<i>ln(Annual salary) (t-1)</i>	0.794 ***	0.795 ***	0.791 ***	0.796 ***	0.791 ***	0.795 ***
<i>Tenure</i>	0.004 ***	0.001	0.002 ***	0.001	0.002 ***	-0.001
<i>Age</i>	0.001 ***	0.007	0.002 ***	0.008	0.001 ***	0.005
<i>Part time</i>	0.000 **	0.003	-0.003 **	0.003	-0.003 **	0.001
Performance Rating (b):						
<i>Unacceptable (rating of 1)</i>	-0.025	-0.030	-0.026	-0.031	-0.027	-0.032
<i>Required improvement (rating of 2)</i>	-0.015 *	0.022 ***	-0.016 *	0.023 ***	-0.017 *	0.021 ***
<i>Good and reliable (rating of 4)</i>	0.014 ***	0.030 ***	0.016 ***	0.032 ***	0.014 ***	0.030 ***
<i>Outstanding (rating of 5)</i>	0.025 ***	0.043 ***	0.025 ***	0.043 ***	0.024 ***	0.041 ***
Demographics:						
<i>Female</i>	-0.004 **	-0.002	-0.004 **	-0.003	-0.004 **	-0.002
<i>African American</i>	-0.005 ***	-0.003	-0.004 ***	-0.004	-0.004 ***	-0.002
<i>Asian American</i>	-0.001	-0.001	-0.001	0.001	0.001	0.001
<i>Hispanic</i>	-0.005 ***	-0.002	-0.006 ***	-0.002	-0.006 ***	-0.002
<i>Non-U.S.-born</i>	-0.005 ***	-0.004	-0.004 ***	-0.004	-0.004 ***	-0.002
Total number of employees (d)	3,193		2,344	1,382	1,258	327

Notes: (a) All models include job title, work unit, and manager fixed effects. They also include dummy variables for highest educational level achieved and marital status.

The omitted category for highest educational level is bachelor's degree; for demographics, it is U.S.-born white male employee, and for marital status, it is single.

(b) The omitted category for performance rating is a rating of 3 ("performance consistently meets established expectations for the job").

(c) All models control for the turnover hazard rate as estimated from a Cox regression model.

(d) This is the number of employees who stayed in the company for at least two years during the period under study and consequently they can be studied in the pay growth models. This number is a subset of the total 8,898 employees under study during the 1996-2003 and of the total 9,231 employees under study during the 2005-2009 period.

*** $p < 0.001$ ** $p < 0.01$ * $p < 0.05$ † $p < 0.1$ (two-sided t-tests).

Table A3.

Additional Models Predicting Annual Pay Growth: For the Sample of Employees Whose Managers Were at ServiCo *Before* and *After* the Introduction of Organizational Accountability and Transparency into the Performance-Reward System

Independent variables (a) (b)	Before (1996-2003)			After (2005-2009)		
	Correcting for turnover (c)			Correcting for turnover (c)		
	Model 1	Model 2	Turnover rate model (Cox regression)	Model 1	Model 2	Turnover rate model (Cox regression)
Demographics:						
<i>Female</i>	-0.004 ** (0.0015)	-0.004 ** (0.0015)	0.070 (0.1322)	-0.003 (0.0058)	-0.003 (0.0154)	0.063 (0.1678)
<i>African American</i>	-0.004 *** (0.0013)	-0.005 *** (0.0016)	0.081 (0.1616)	-0.006 (0.0294)	-0.006 (0.0541)	0.074 (0.1631)
<i>Asian American</i>	0.001 (0.0026)	-0.001 (0.0037)	0.495 * (0.1819)	-0.001 (0.0056)	-0.001 (0.0059)	0.083 (0.2080)
<i>Hispanic</i>	-0.006 *** (0.0016)	-0.005 *** (0.0016)	0.681 † (0.2920)	-0.005 (0.0153)	-0.005 (0.0300)	0.147 (0.1516)
<i>Non-U.S.-born</i>	-0.004 *** (0.0015)	-0.005 *** (0.0019)	0.251 (0.2864)	-0.006 (0.0513)	-0.007 (0.0163)	0.164 (0.2235)
χ^2 statistic	756100 ***	162345 ***	2075 ***	677820 ***	153448 ***	1989 ***
P > χ^2	0.000	0.000	0.000	0.000	0.000	0.000
Total number of employees (d)		4,643			4,987	

Notes: (a) Standard errors are in parentheses. All models include job title, work unit, and manager fixed effects. They also include dummy variables for highest educational level achieved and marital status. The omitted category for highest educational level is bachelor's degree; for demographics, it is U.S.-born white male employee, and for marital status, it is single.

(b) All models control for the employee level of performance. The omitted category for performance rating is a rating of 3 ("performance consistently meets established expectations for the job").

(c) The turnover hazard rate is estimated from the Cox regression model reported in the table (columns 3 and 6).

(d) This is the number of employees who stayed in the company at least two years during the period under study and consequently they can be studied in the pay growth models. This number is a subset of the total 8,898 employees under study during the 1996-2003 and of the total 9,321 employees under study during the 2005-2009 period, who were managed by a sample of managers working for ServiCo before, during, and after the introduction of organizational accountability and transparency procedures into the performance-reward system (87.8% of the entire population of managers).

*** p <0.001 ** p <0.01 * p <0.05 † p <0.1 (two-sided t-tests).

Table A4.

Regression Models Predicting Employee Promotions and Terminations: *Before* and *After* the Introduction of Organizational Accountability and Transparency into the Performance-Reward System at ServiCo

Independent variables (a)	Before (1996-2003)		After (2005-2009)	
	Termination Model	Promotion Model	Termination Model	Promotion Model
<i>ln(Annual salary) (t-1)</i>	-0.185 *** (0.0135)	-1.263 *** (0.2569)	-0.155 *** (0.0369)	-1.312 *** (0.2323)
<i>Tenure</i>	-9.482 *** (0.2938)	-0.096 * (0.0461)	-9.182 *** (0.1938)	0.064 (0.0958)
<i>Age</i>	-0.031 (0.0103)	-0.010 (0.0089)	-0.012 (0.0045)	-0.011 (0.0083)
<i>Part time</i>	5.526 (10.2546)	0.092 (0.1872)	5.753 (12.5255)	0.093 (0.1493)
Performance Rating (b):				
<i>Unacceptable (rating of 1)</i>	2.613 *** (0.3907)	-5.756 (33.6376)	2.836 *** (0.2804)	-0.577 (0.4039)
<i>Required improvement (rating of 2)</i>	1.176 *** (0.1757)	0.497 † (0.2788)	1.561 *** (0.1537)	-0.236 † (0.1445)
<i>Good and reliable (rating of 3)</i>	-0.134 (0.1555)	0.153 (0.1881)	-0.026 ** (0.0098)	0.156 (0.1690)
<i>Outstanding (rating of 5)</i>	-0.045 (0.1589)	0.477 * (0.2022)	-0.032 ** (0.0118)	0.435 *** (0.1108)
Demographics:				
<i>Female</i>	0.072 (0.1217)	-0.222 (0.1486)	0.063 (0.1678)	-0.075 (0.2098)
<i>African American</i>	0.083 (0.1516)	-0.034 (0.1898)	0.074 (0.1631)	-0.034 (0.1979)
<i>Asian American</i>	0.525 * (0.1759)	-0.332 (0.3106)	0.083 (0.2080)	-0.147 (0.2106)
<i>Hispanic</i>	0.664 † (0.2820)	-0.231 (0.4657)	0.147 (0.1516)	-0.223 (0.3746)
<i>Non-U.S.-born</i>	0.211 (0.2664)	-0.744 † (0.4171)	0.164 (0.2235)	-0.415 (0.4863)
χ^2 statistic	2104.78 ***	435.41 †	2735.64 ***	755.91 ***
P > χ^2	0.000	0.074	0.000	0.000
Number of events	375	262	309	279
Total number of employees	8,898		9,321	

Notes: (a) All models include job title, work unit, and manager fixed effects. They also include dummy variables for highest educational level achieved and marital status. The omitted category for highest educational level is bachelor's degree; for demographics, it is U.S.-born white male employee, and for marital status, it is single.

(b) The omitted category for performance rating is a rating of 3 ("performance consistently meets established expectations for the job").

*** $p < 0.001$ ** $p < 0.01$ * $p < 0.05$ † $p < 0.1$ (two-sided t-tests).

Figure A1.
Key Dimensions of Organizational Accountability and Transparency in the Performance-Reward System at ServiCo since November 2004

	Audience(s)		Organizational Accountability	Organizational Transparency
	Level	Actors		
Performance-Reward Processes and Criteria	Company	Performance-Reward Committee	Responsible for making sure that senior managers make merit-based pay decisions in equitable ways by ensuring that these managers follow the process (i.e., use the Merit-Based Bonus Form) and use criteria (only consider the performance of the employee) when making merit-based pay decisions	Compiles information and writes reports about the processes and criteria behind the merit-based pay decisions made in each work unit of ServiCo. Also makes recommendations to high-level executives on how to improve merit-based pay processes and criteria
	Division	Top Executives and Key HR Members	Review the information provided by the performance-reward committee each year about the processes and criteria applied for the distribution of pay in equitable ways (in annual reports and meetings)	Know about the process and criteria used to reward employees based on their performance. Participate in designing these processes and criteria together with the Performance-Reward Committee
	Work Unit	Senior Managers (Unit heads)	Responsible for making merit-based pay decisions concerning employees in their work units entirely based on the performance of the employees. Have to fill out the merit-bonus (MB) form to justify the amount rewarded to each employee in their work units (because performance evaluations are the "primary basis" for all employee merit-based pay increases each year)	Know (and are trained on) how to follow the process and use the criteria when making merit-based pay decisions
		Evaluating Managers	Only responsible for evaluating the performance of the employees in their work units	Know about the broad process and criteria used by senior managers to make merit-based pay decisions. Do not get to see the Merit-Based Form filled out by the Senior Managers to whom they submit the performance evaluations of the employees in their work units

Figure A1. (Continued)

	Audience(s)		Organizational Accountability	Organizational Transparency
	Level	Actors		
Performance- Reward Outcomes	Company	Performance-Reward Committee	Responsible for monitoring that all merit-based pay decisions made by senior managers at ServiCo are equitable, that is, entirely based on the performance of the employee	Compiles information and writes performance-pay outcome reports about all merit-based pay decisions made in all work units and divisions of ServiCo. Such information includes merit-based pay averages, standard deviations, and ranges (these data are reported in the aggregate broken down by level of employee performance at the work unit, division, and company level)
	Division	Top Executives and Key HR Members	Review the information provided by the performance-reward committee each year about the distribution of rewards by employee performance in their divisions (including work units) as well as other divisions (units) at ServiCo (in pay-performance outcome reports)	Have easy access to information about merit-based pay decisions made in their divisions (including work units) as well as other divisions at ServiCo. Information is provided by the performance-reward committee each year in pay-performance outcome reports
	Work Unit	Senior Managers (Unit heads)	Responsible for ensuring that any merit-based pay decisions made in their units are equitable, that is, entirely based on the performance of the employee	Receive information (from HR who gets the info from the performance-reward committee) about merit-based pay decisions made in their work units and other work units in the same division (these data are reported in the aggregate broken down by level of performance)
		Evaluating Managers	Not responsible for distributing merit-based pay among employees	Receive information (from their senior managers who get the info from HR) about merit-based pay decisions made for each of their employees in their work units

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