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Paying More Without Getting More? Within-Level Promotion, Strategic Effort Allocation, and Field Service Productivity

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We investigate the impact of within-level promotion on the operational productivity of autonomous frontline workforces. This common practice significantly increases a worker's fixed base salary without altering job responsibilities, aiming to avoid organizational traps such as the Peter principle. However, it introduces a critical behavioral friction. Because the piece rate stays flat while the base salary rises, each promotion reduces the share of earnings that responds to effort, a feature we term incentive dilution. We examine whether a flat, performance-based piece rate can sustain worker motivation, or whether incentive dilution inadvertently crowds out discretionary effort. We leverage a granular, high-frequency dataset of service orders from a South American field service organization. Using a regression discontinuity design complemented by a difference-in-discontinuities and a staggered difference-in-differences design, we find that promotions successfully select high-performing workers, whose productivity falls once the evaluation window that determines promotion closes, and that promoted workers are less likely to leave the company. Promotion also induces an immediate productivity boost of 19 to 24 points, an increase of approximately 11\% to 14\% over the pre-promotion baseline. However, this honeymoon period is short-lived. Over the subsequent three to four months, this positive gap fades, and daily output reverts entirely to the pre-promotion baseline. Mechanism analysis reveals that each promotion compresses the share of performance pay in total earnings, weakening the perceived return to extra effort. Workers seem to exhibit output anchoring: the elevated post-promotion output fails to become a new reference, and workers revert to their familiar pre-promotion level of daily production. These findings suggest that the composition of pay, and not only the marginal piece rate, shapes whether a higher level of effort becomes self-sustaining. Within-level promotion functions well as a talent selection and retention mechanism, but fails as a long-term operational tool for sustained output expansion. Firms that rely on linear piece rates alongside rising base salaries face structural productivity stagnation, as incentive dilution deepens with each promotion. To counteract incentive dilution and sustain service delivery performance, operations directors and compensation designers should redesign their incentive architectures scaling performance pay with career level or shifting from purely linear piece rates toward threshold-based, goal-driven incentives that re-anchor the performance reference at each career step.