

The Institutional Logic, Transaction Costs, and Long-Term Incentives of the “Promote or Leave” System: An Analysis of the University Faculty Tenure-Track System from the Perspective of New Institutional Economics

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Abstract: Drawing on new institutional economics as its theoretical foundation, this paper focuses on transaction cost theory, contract theory, and institutional change theory to conduct a systematic analysis of the “pre-tenure-track” system currently being implemented in Chinese universities. Through an examination of policy documents from Tsinghua University and Peking University—two institutions that have taken the lead in implementing this reform. First, this system is essentially designed to address the widespread information asymmetry in the academic labor market; through a dual “screening–incentive” mechanism, it reduces the high transaction costs associated with evaluating and monitoring scholars’ long-term capabilities and effort levels. Second, by combining short-term rigorous evaluations with long-term career security, the institutional design aims to encourage scholars to make in-depth “human capital-specific investments”. Third, in actual implementation, due to an imperfect supporting evaluation system, the system has also given rise to new organizational costs, such as the short-term orientation of evaluation metrics, goal-substitution behavior, and even academic rent-seeking.

Keywords: New Institutional Economics; transaction costs; tenure-track system; “Promote or Leave”; university governance

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After a period of rapid expansion, China’s higher education system is gradually shifting toward a path of quality-driven, inward-looking development. The traditional civil service system, which had been in place for a long time, ensured the stability of the faculty during a specific historical period; however, the problem lies in the lack of incentives resulting from the tenure system. Underlying these issues are high internal transaction costs within the organization.

1. Personnel Dilemmas and Theoretical Needs in Higher Education Amid Institutional Change

To address these dilemmas and challenges, since the beginning of this century, leading universities such as Tsinghua University and Peking University have begun implementing reforms to faculty appointment systems. Specifically, the “pre-tenure-track” system, commonly known as “promote or leave”. Its core concept is to establish a clear pre-tenure period, typically lasting 5 to 6 years, for young faculty members entering the academic profession, during which they undergo rigorous evaluations based on academic output and teaching ability. Those who pass the evaluation are transferred to the tenured track, while those who fail face contract termination and non-renewal.

As of 2021, among the 42 “Double First-Class” universities, 15 had essentially completed this reform, and approximately half of the remaining institutions were in the process of implementing it (Zhang Zewei, 2021) ^[1]. From the perspective of new institutional economics, the essence of this system lies in designing a dual “screening-incentive” mechanism. By adopting the form of an incomplete contract, it reduces the difficulty universities face in identifying outstanding talent under conditions of information asymmetry, while also lowering the costs associated with monitoring faculty behavior in the long term (Yi Ran and Zhang Xu, 2023) ^[2].

Existing research reveals that under the sustained pressure created by rigorous evaluations during the pre-tenure period, a significant proportion of young faculty members are forced to set aside the research directions they had already established during their doctoral studies, which were based on long-term academic interests and instead turn to so-called “task-oriented research” characterized by short output cycles, ease of quantitative evaluation, and the

ability to rapidly accumulate evaluation capital. From the perspective of organizational sociology, this phenomenon constitutes a classic case of “goal substitution” (Chen Xiaoman and Fan Xiaodong, 2022) [3]. Not all empirical studies point to negative conclusions. Nie Yingyu et al. (2023), based on an analysis of data from the mathematics and physics disciplines at a research university, found that the systematic implementation of the “pre-tenure-track” system did indeed exert a significant positive impact on the research performance of young faculty members [4].

Based on the aforementioned research questions and academic controversies, this paper attempts to conduct a case study on the “promote or leave” institutional reform originating in the Chinese higher education sector, using several core concepts from new institutional economics as its theoretical foundation.

2. Universities, Contracts, and Transaction Costs

2.1 Universities as Institutional Mechanisms for Reducing Transaction Costs in Knowledge Production

As a special type of nonprofit organization, the core function of a university is to produce, disseminate, and apply advanced knowledge. Knowledge production is characterized by high uncertainty, long cycles, processes that are difficult to observe, and outcomes that are hard to measure precisely. This results in severe information asymmetry in the academic labor market.

2.2 The Transaction Cost Dilemma of Traditional Public Sector Employment Contracts

The traditional public sector employment system can be understood as a de facto “lifetime employment combined with seniority-based promotion” contract. Its problems regarding transaction costs are primarily manifested on three levels.

First are the high costs of moral hazard. Once hired under this system, faculty members enjoy absolute job security; external competitive pressure essentially disappears, and “free-riding” behavior becomes difficult to monitor effectively. Second are the costs associated with inflexible matching and exit mechanisms. Staff mobility is extremely low; faculty members who are unsuited to their positions or unable to keep pace with disciplinary developments find it difficult to be reassigned, naturally leading to inefficiency in human resource allocation. Third are incentive distortions and a lack of innovation. A promotion culture based on seniority makes it difficult for young scholars to stand out, and incentive mechanisms for high-risk, long-term innovative research are largely ineffective.

2.3 The Theoretical Core of the “Pre-tenure” System Is Based on an Incomplete Contract Involving Screening and Incentives

The “promote or leave” system can be viewed as an institutional response to the aforementioned challenges. Its economic core is a two-stage, long-term incomplete contract.

The first stage is the pre-tenure period. The university sets a fixed term—typically five to six years—during which rigorous evaluations are conducted; in essence, this is a “probationary period”. The core function of this stage is selection. By observing a scholar’s relatively easily quantifiable output over several years, the university can more effectively assess their true capabilities, research potential, and work ethic, thereby significantly reducing the risk of hiring the wrong person in the first place.

The second stage is the tenure track. Scholars who pass the pre-tenure evaluation are granted tenure. This represents a high degree of job security and academic autonomy. The economic logic behind this commitment can be understood from three perspectives. First, it protects specific investments. Second, it provides long-term incentives. Third, it reduces the costs of ongoing evaluation.

3. The Implementation of the “Promote or Leave” System in China: An Analysis Based on Policies at Tsinghua University and Peking University

3.1 Core Provisions and Transaction Cost Logic of the “Pre-tenure” System at Tsinghua University and Peking University

Tsinghua University implements a “pre-tenure” system under a series-based management framework.

According to its official recruitment website ^[5], faculty positions are divided into three series-teaching and research, research, and teaching-each with distinct appointment and support models. Among these, the teaching and research series serves as the core vehicle for implementing the “pre-tenure” system. This series comprises three ranks-professor, associate professor, and assistant professor-and explicitly stipulates the implementation of the “pre-tenure” system. Tenure-track positions include the Assistant Professor and Tenure-Track Associate Professor stages, with a total appointment period generally not exceeding six years. The system emphasizes that “faculty members who fail to obtain a tenured position upon expiration of their tenure-track term will not have their employment contracts renewed and may not transfer to other tracks”. This design formalizes the screening mechanism, aiming to eliminate at the source the expectation of “being able to enter but not leave” that existed under the old system, thereby fundamentally reducing future costs associated with excess staff and organizational adjustments.

Tsinghua’s system also features a tiered procedural design. Promotions during the tenure-track period, such as from assistant professor to associate professor-are led by the schools and departments and require only university filing; however, obtaining tenure-track status, including tenure-track associate professor and professor positions-requires a more rigorous process, such as international evaluation, a vote by the school or department’s tenure committee, and final approval by the university’s tenure review committee. This tiered delegation of authority grants departments a degree of autonomy in the initial screening process while ensuring the authority and uniform standards of tenure grants through university-level final review, thereby seeking to strike a balance between day-to-day management costs and high academic standards.

Peking University’s System ^{[6][7]} also implements a series-based management system, divided into three series: teaching and research, instruction, and research support. However, the management regulations revised in 2025 exhibit some distinctive features in terms of procedural design and career pathways. Peking University’s “pre-tenure” system primarily applies to the teaching and research series. The term of a “pre-tenure position” is determined through negotiation between the applicant and the department, but the contract must specify the start date for the tenure evaluation and ensure that the evaluation is completed during the final year of the contract term.

Similar to Tsinghua University, Peking University explicitly stipulates that “if a tenured position is not obtained within the specified timeframe, the contract shall terminate upon expiration”. However, Peking University incorporates a slightly more flexible “buffer” provision: prior to the contract’s expiration, “upon the individual’s application, with the consent of the department, and approval by the university, a grace period of no more than one year may be granted before leaving the university”. This provision mitigates, to some extent, the immediate impact of contract termination, but the core “promote or leave” outcome remains unchanged.

Although there are some differences in specific procedures and details, the systems at Tsinghua and Peking University actually share the same underlying logic of reducing transaction costs. First, both have clearly defined pre-tenure periods-generally no more than six years at Tsinghua, and as stipulated in the contract at Peking University. Second, both have quantifiable promotion criteria. Third, both feature rigid exit mechanisms. Fourth, both offer a commitment to career security through tenured positions.

4. Conclusion

The key to advancing reform under the “promote or leave” system does not lie in a blanket rejection or simplistic abandonment of the system itself, but rather in continuously optimizing the micro-mechanisms and operational details within the governance process, with the aim of achieving “adaptive efficiency” in the system’s operation.

The primary focus of reform lies in establishing a diversified academic evaluation system that aligns with the diverse nature of knowledge production. In this process, the “representative work” system should be actively introduced to replace the accumulation of quantity; peer review grounded in the academic community should be

fully respected; long-term evaluations focused on cumulative achievements should be implemented; and mechanisms should be established at the institutional level to allow for appropriate tolerance of failed innovations.

Second, efforts should be directed toward strengthening the academic community's capacity for self-governance and the normative effectiveness of its reputation mechanisms. By refining the functional structure of academic committees at the university and college levels, these bodies should be granted substantive deliberative authority and decision-making weight in core areas such as faculty hiring, promotion to higher academic ranks, and academic evaluation.

Third, we must continuously improve the clarity of employment contracts and institutional safeguards for procedural justice. As the core document defining the rights and obligations of both parties, employment contracts should set forth the key performance indicators, specific procedures, and potential consequences as clearly and unambiguously as possible.

Fourth, we must provide young faculty members with appropriate institutional support and diverse career development pathways. Hiring institutions should also actively explore and establish diverse career development pathways, ensuring that academic talent with different skill sets and unique strengths can all find suitable opportunities for growth.

The ultimate success or failure of the "promote or leave" system does not hinge on whether universities formally adopt this hiring model, but rather on whether it can be successfully embedded within a broader, more functionally supportive, and integrated institutional ecosystem. The future path for deepening personnel system reform in Chinese universities should strike a balance-while managing the tension-between effectively reducing the transaction costs inherent in the traditional system and prudently guarding against the potential new institutional costs that may arise from the new system, ultimately achieving a sustainable state of institutional equilibrium.

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