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| <p>Tiivistelmä-Referat-Abstract</p> <p>This paper is about delegation within organization, more precisely, within company. The key questions are i) what is the principal's optimal choice of authority allocation and ii) what factors influence the authority allocation in the scenarios of i) none of the two parties holds private information on projects; ii) the agent is better informed on projects and his information cannot be elicited. The thinking is based on the assumption that the principal always seeks to increase the agent's initiative and maximize own expected utility.</p> <p>Based on Principal-agent theory, two trade-offs are studied. One is losing control versus incentive. The principal raises the agent's incentive by delegating the decision rights to him. However, delegation may result in loss of control. Another trade-off is delegation versus communication. When a non-congruent agent holds private information and the principal holds authority, the agent may start strategic communication by adding noise into his communication. The trade-off is same as this question: whether the principal should delegate decision rights to an agent who has different preference with hers, or keep decision rights and make decision based on noisy communication?</p> <p>The study shows that delegation is always optimal as long as the difference between the principal and agent's preferences is not too large. The authority is more likely to be delegated on decisions (i) that are relatively unimportant for the principal; (ii) for which the principal can trust the agent; (iii) that are important to the agent, either because private benefits are high or because the principal cannot hurt the agent's initiative by overruling his decisions; (iv) that are new enough to the principal, so new that she does not have enough expertise or competency on it; (v) that the agent holds private information which is not elicitable. When delegation is not feasible, there are several factors which may increase a subordinate's real authority. They are (i) multiple agents; (ii) urgency of decisions; (iii) reputation for moderate interventionism; (iv) monetary incentive to the agent; (v) multiple principals.</p> | | | |
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