

An Incomplete Contract Approach to Authority in Organizations for Choice and Execution*

Akifumi Ishihara[†] Shintaro Miura[‡]

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Abstract

We consider an incomplete contracting model with a boss and an executor, in which the decision process consists of project choice and execution effort and investigate optimal allocation of authority, the party with which chooses the project. Each party has an imperfectly informative private signal on which project is promising, and the project is successfully executed if and only if the promising project is chosen and the agent exerts effort to execute the project. Centralization forces the boss to choose the project, which induces uncertainty of the agent's confidence of the promising project. Consequently, it might be optimal to allocate authority to the party who has less precise information on the promising project.

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[†]National Graduate Institute for Policy Studies. E-mail: a-ishihara@grips.ac.jp

[‡]Kanagawa University. Email: smiura@kanagawa-u.ac.jp