

# Authority and Promotion Tournaments in Organizations

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## Abstract

This study explores the interaction between authority and promotion tournament in firms. We argue that the two authority schemes at middle management positions—centralization and decentralization—give rise to different effects between incentive and selection in a promotion tournament involving heterogeneous agents. While under centralization both effects are caused by the firm’s information, under decentralization, these are caused by the agents’ own information. We show that the optimal authority structure is not monotonic and that in particular, both incentive and selection effects make the firm less likely to delegate authority to agents, even if the agents have better information.

**Keywords:** Centralization, Decentralization, Internal labor market, Promotion tournament.

**JEL Classification:** D23, J41, M51

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