

Delegation and Decision Process in Organizations*

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Abstract

We study a three-stage decision process that consists of information acquisition, project choice, and execution of the selected project. There are a principal and an agent whose “favorite” project are different and each receives a higher private benefit from the success of the favorite one than that of others. The agent is responsible for the first and third stages, and at the beginning of the relationship the principal decides and commits herself to the allocation of the right to choose a project to herself or to the agent. We show that (i) under some conditions, it is optimal for the principal to delegate the authority over project choice to the agent and give him complete control over the decision process; and (ii) the principal is less likely to delegate the authority under the reduced, two-stage decision process where either the information acquisition stage or the execution stage is exogenously fixed.

JEL Classification Number: D23, D82, D83, M11.

Keyword: Decision Process, Delegation, Information Acquisition, Execution, Incentives

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