“How to get what you want when you do not know what you want”

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Abstract

In this paper we present a model of the interplay between learning, managerial intervention and the allocation of decision rights in the context of a generalized agency problem. Within this context, actors face not only conflicting interests but also diverging cognitive “visions” of the right course of action. We assume that a principal may obtain the implementation of desired organizational policies by means of appropriate design of the allocation of decisions or by means of costly intervention through authority or incentives, and analyze their consequences for organizational control and learning. We show that the structure of allocation of decision rights is very powerful in terms of control, but when the principal is uncertain about the course of action, organizational structure and managerial intervention complement each other in non-trivial ways and must be carefully tuned. We also show that there is a general advantage in maximizing the partitioning decision rights, because it allows both higher control and higher levels of learning.

Keywords: Delegation, Authority, Incentives, Organizational Structure, Learning