Monk business: An example of the dynamics of organizations

Luis C. Corchón

Department of Economics, Universidad Carlos III, c/Madrid 126, Getafe, 28903 Madrid, Spain (e-mail: lcorchon@eco.uc3m.es)

Received: 26 April 2001/Accepted: 29 December 2003

Abstract. In this paper we present a dynamic model of an organization. It is shown that the quality of the members of the organization may change cyclically and that even if the organization promotes excellence, the organization may end up populated mostly by mediocre agents.

1 Introduction

The last two decades have seen a growing interest in the theory of organization. Using the tools of game theory and contract theory, economists have begun to understand some basic features like incentive schemes, organizational forms or property rights inside the firm. But very little attention has been paid to the interplay between the internal structure of the organization and the environment in a dynamic set up.

In this paper, we focus on the fact that organizations must offer selective prizes -say, promotions- in order to attract people inside the organization. Unfortunately these prizes attract all kind of agents. Suppose that agents are free to enter but the organization has a technology for distinguishing (imperfectly) “talented” from “untalented” agents. One should expect that if the technology is able to select talented agents with an arbitrarily large probability, this should stop untalented agents from entering into the orga-
nization. But this is not necessarily the case: if the organization is well managed by a talented agent, this provides an extra incentive for untalented agents to enter even if they know that they will get no prize.

In this paper we propose a simple model characterized by the following features:

1. The organization is subject to entry and exit. We model this by an overlapping generation model in which agents are free to enter and live for two periods.
2. Agents are heterogeneous. We assume that they belong to two categories: Talented or untalented.
3. The organization is hierarchic. In the first period, agents perform some routine task. At the beginning of the second period, one of them is chosen to be the boss. The other agents have the choice of leaving the organization if they wish to do so.
4. There are externalities inside the organization. If the boss is talented all other agents are better off than in a situation in which the boss is untalented.

For the sake of tractability we ignore important features of organizations such as competition among organizations, loyalties, durable capital, complexity and incentives. In this framework, we introduce two additional simplifications in order to keep the model tractable: a) The rules under which the boss is chosen are exogenous. b) A talented agent does not create externalities if he is not the boss and his productivity is the same as the productivity of an untalented agent in the routine task.

Our model may be suited for studying some aspects of organizations such as non profit organizations, a political party such as the communist party in the extinct U.S.S.R. or the fascist party in Mussolini’s Italy, or a department in an university. In order to couch the previous items in our framework it is better to think of a small branch of the organization, such as a small town branch of the communist party, and not, say, the Politburo.

Our leading example is that of an abbey in medieval Europe. Early on in their lives, farmers decide to enter into the abbey or to remain peasants. If a young peasant decides to become a monk he will spend the next period (say 25 years) copying manuscripts and farming according to the direction of the current abbot. In our model, when entering the abbey, young peasants do not know who the abbot will be, but they know the probability of the abbot being

---

1 See Radner (1991) for an overview of incentives in a dynamic setting and Sjostrom and Weitzman (1996) for a model where competition among organizations helps to maintain quality at a efficient level.
2 In the latter case, free entry is motivated by the fact that, given the large demand for higher education, restrictions to become a faculty member were not important in many parts of Europe.