

Optimal Patronage

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Abstract

We study the design of promotions in an organization where agents belong to groups that advance their cause. Examples and applications include political groups, ethnicities, agents motivated by the work in public sector and corruption. In an overlapping generations model, juniors compete for promotion. Seniors have two kinds of discretion: discretion at the job that they use to advance their cause directly and promotion discretion ("patronage") to bias the promotion decision in favour of the juniors from their group. The principal maximizes the efforts of juniors when they compete for promotion either because the efforts are productive or because they increase juniors' quality when they become seniors. We characterize the optimal patronage. The main trade-off is that a higher patronage increases the attractiveness of the senior position but it discourages the effort since the promotion is not entirely merit-based. We study the comparative statics of the optimal patronage and show that it is usually a substitute to the discretion at the job