



WHY DELEGATE?

NEIL J. MITCHELL

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For Renée

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Acknowledgments

Getting someone else to do something for you is not easy, as I describe at some length in this book. But doing things on one's own is not easy either. Beyond building on the work of economists and political scientists in developing the arguments and illustrations in this book, I have had all sorts of help from coauthors, colleagues, and students. I began thinking about delegation issues in researching violations of human rights and sorting out the motives of the leaders and the led. Some of what is here and notably the opportunism of the principal in delegating or tolerating the wrongdoing of the agent was initially explored in *Agents of Atrocity* (2004) and *Democracy's Blameless Leaders* (2012). In trying to isolate the leader's and the agent's contributions to violations, I worked on the issues of human rights, sexual violence and agent-centered violations first with James M. McCormick at Iowa State University, then with Chris Butler, Tali Gluch, Alok Bohara, and Mani Nepal at the University of New Mexico. To better understand the agent's contributions to violations I became interested in the role of informal armed militias and vigilantes, teaming up with Sabine Carey, Mannheim University, to construct a database on these organizations. We wanted to find out what sorts of armed groups are out there, why governments outsource to these organizations, and with what consequences. That work continues. More recently, with Kristin Bakke and Dominic Perera (University College London) and Hannah Smidt (University of Zurich), I have been working on a project on civil society monitoring and how and why governments restrict civil society organizations to defeat fire-alarm monitoring. These collaborative projects also inform the argument and analysis presented in this book. At UCL I have been lucky enough to find not just good students but coauthors and generous colleagues. In afternoons spent in the Norfolk Arms, the Conflict and Change group have given comments on drafts of

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Why Delegate?

1

Why Delegate?

In March 2010 in the Bronx, Sharif Stinson got a ticket for trespassing and obscene language. It triggered a very expensive class action lawsuit. His lawyer said there was no crime. Foul language, he noted, was not unfamiliar to New Yorkers. Stinson's aunt had given her permission for him to be in the building, and the paperwork left the obscenity unspecified. The court found the summons lacked legal justification.

Sharif Stinson was one of many New Yorkers to receive tickets for disorderly conduct, drinking and urinating in public from police officers who, on their part, neglected the legal niceties. It cost the City tens of millions of dollars to settle the class action lawsuit. According to the lawsuit, the officers' reward structure was outcome-based. Those in charge geared officers' performance to the number of tickets they issued. The nature of the task was communicated by watch commanders in roll-call meetings, as a Bronx patrolman secretly recorded: "Until you decide to quit this job and become a Pizza Hut delivery man, this is what you're going to be doing. . . . If you think 1 [arrest] and 20 [summonses] is breaking your balls, guess what you are going to be doing? You're going to be doing a lot more, a lot more than what you think." In Brooklyn, commanders were similarly pithy: "I see 8 fucking summonses for a 20-day period . . . I told you last month, they're looking at the numbers. Ain't about losing your job, [but] they can make your job real uncomfortable. . . . Go through the motions and get your numbers anyway. . . . If they're on a corner, make 'em move. If they don't want to move, lock 'em up. Done deal. You can always articulate [a charge] later."¹

¹ United States District Court, Southern District of New York: Sharif Stinson et al., against City of New York. <https://www.clearinghouse.net/chDocs/public/PN-NY-0012-0002.pdf>.

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While the City denied using quotas, the settlement required it to notify all officers that ticket quotas were not police department policy.² It was an expensive lesson in the difficulties of delegating. As those in charge cannot observe the effort of the officer on the beat, the number of summonses indicated productivity. Of course, the community wants officers to work rather than shirk. But they do not want motion-going officers and just “numbers.” The community did not benefit from this productivity. As we go up the chain of delegation from the officer on the beat to the mayor, who in turn answered to the community, nobody really benefited. Taxpayers were out of pocket to no purpose. Even the police officers who met their “numbers” were deprived of meaningful work, which is thought to be an important part of what makes us happy.

It is not easy to keep others on task, whether it is policing the Bronx, guarding the safety of the nation, or just fixing your car. As mayor of New York, as a political leader facing a security threat, or as a car owner, delegation brings with it an underlying anxiety. Who is really in control? Is the police officer going through the motions? Is your security official selling you out? Is the mechanic installing an unnecessary part?

The world turns on the delegation relationship and on one party authorizing another to do a task. Social, economic, and political life is inconceivable without it. It has a profound impact on us all, from mundane domestic interactions, to the running of a country or the international community, and from our recreational enjoyments to our spiritual life. *Why Delegate?* investigates the diverse and sometimes questionable mix of incentives we have for delegating in the first place, and then the difficult choices of why we select one agent over another, why we delegate one task rather than another, or why we sometimes continue to delegate to untrustworthy and opportunistic individuals. Large organizations cannot exist without delegation. Parceling out tasks to contractors, employees, or elected

² “New York City to Pay Up to \$75 Million over Dismissed Summonses,” *New York Times*, January 23, 2017. <https://www.nytimes.com/2017/01/23/nyregion/new-york-city-agrees-to-settlement-over-summonses-that-were-dismissed.html>.

representatives is essential for efficient production, democracy in large communities, and just to get us through the day. There seem to be few tasks too precious for us as individuals or as decision-makers in large organizations to leave to others.

There is the story told by the journalist and speechwriter James Fallows that President Jimmy Carter took it upon himself to manage the scheduling of the White House tennis court. He was a busy man, with Middle East peace to negotiate and hostage crises to settle. There were presumably others with the time and skill to sort out the order of play, but the president wanted to control the court. Tennis aside, even the most intimate matters may be delegated. Lovers may be matched and mothers surrogated. Ethical as well as intimacy boundaries to delegation are porous. We expect students to take their own tests and write their own papers, which does not prevent others from offering to perform these services for them. Delegation is part of the human condition, as are the difficult choices it brings with it. Its upside can be efficiency, shared responsibility, and even happiness; its downside can be conflict, corruption, and the attenuation of morals.

1

There is an underlying structure to delegation relationships. Economists offer the insights of principal-agent theory, where the principal contracts with an agent to accomplish a task. The principal and the agent are assumed to have conflicting goals. The agent may be in a position to act in a self-interested and surreptitious way at the expense of the principal. The car owner principal wants a road-worthy car or, perhaps, with a prospective buyer in mind, a paper trail showing that the owner is telling the truth and the car has been well looked after. The mechanic, on the other hand, may be tempted to pad the bill. For successful delegation, and we look at this relationship from the principal's perspective, the challenge is to keep control of the agent and to achieve an outcome in line with her interests. The amount of control exercised by the principal depends on the

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amount of task-related and agent-related information the principal possesses. Conventionally, the person in charge is at a disadvantage and lacks information about the agent's qualities and about what he is actually doing.

Principals and agents might be individuals like the car owner and the mechanic, collections of individuals like shareholders who appoint a manager to run a company, and voters who elect a president to run a country, or they might member states of the United Nations who task that organization to coordinate responses to pandemics, implement a peacekeeping operation, and address pollution, climate change, or some other policy task that crosses national borders. The theory encompasses hierarchical relationships in private and public life. It describes a principal giving an agent a task and holding the agent accountable for the delivery of the task. If the agent fails to deliver, the principal punishes the agent or terminates the contract. Shareholders, for example, punish unsatisfactory performance by cutting a manager's pay, or replacing him. The theory simplifies the outcomes of the relationship to the interests of the parties and the information they hold. It describes the tension in the relationship produced by the different parties having conflicting interests and the principal's likely lack of relevant knowledge, or *information asymmetry*.

Viewing the relationship from the perspective of the principal, interesting questions stem from the assumption that the agent is self-interested, rather than motivated by the goals of the principal. Her challenge is to shape the agent's incentives and to limit his opportunities to exploit his position. Getting and maintaining control over the agent is central to principal-agent theory and drives much of the research. The agent's pursuit of his self-interest at the expense of the principal is the *principal-agent problem*. Borrowing from the insurance industry, the agent's opportunism is conceived as *adverse selection* and *moral hazard*. Adverse selection is the challenge facing the principal before entering the relationship; moral hazard is the concern after agreeing to delegate. Both result from the principal's information disadvantage.

Before entering the relationship, the principal lacks information about the qualities of the agent. The principal runs the risk of a poor choice of agent. The agent may be untrustworthy, unsuitable, and understandably unforthcoming about these characteristics. Like the seller of an unreliable car, or a sick person seeking health insurance, a lazy, dishonest, or incompetent agent is expected to behave rationally and to prefer to hide off-putting preexisting conditions from the principal.

After making an agreement or a contract with the agent and as the agent undertakes the task, the principal then worries about how the agent will perform and his capacity for hidden action. She worries that the agent will be tempted to act in a hidden, dishonest way at her expense. An agent may shirk rather than work, or sell a secret to the enemy. The principal cannot constantly watch the agent. Even if she can, she may not have the knowledge to know whether the agent is acting in her interest or not, for example, regarding the part he is installing in her car.

We do know from the car-maker Henry Ford that the division of labor has benefits. Yet in seeking benefits from someone else's knowledge and efforts, the principal exposes herself to the opportunism of the agent. Trust in others to carry out a task is not always repaid. There are inherent agency costs in delegating, having to do with the time and effort necessary to find the agent and to agree to the specifics of the task. They also mount up as the more far-sighted, but possibly over-anxious principal, takes costly countermeasures in order to minimize opportunism by the agent. Agency losses accrue for the principal as the self-interested agent acts against the principal's interest. Much of the principal-agent literature investigates the efficacy of the responses available to a principal to manage and deter opportunism. By exercising due diligence and not selecting high-risk candidates, by writing lengthy and elaborate contracts, by providing incentives to make opportunism less attractive, by inculcating honor codes and professional ethics, by monitoring, and by punishment and dismissal, the principal strives to deter shirking and to align the agent's interests and actions with her own.

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This simple theory about the give and take and to and fro between principal and agent has great reach. Regarding a passage from Exodus about sending an angel to guide the Israelites out of Egypt, one treatment of the topic observes that “even God delegates.”³ In a passage from *Paradise Lost*, one discovers that God, too, has principal-agent problems; there are worse as well as better angels and even “Rebel Angels,” which the celestial principal has to contend with and to punish (at great length). From such epic struggles to ordinary daily interactions, our understanding of a vast array of issues benefits from bringing them under the simple structure of the delegation relationship, more or less as economists have described it. It alerts us to the possibility of conflicting interests. It identifies how opportunities might be seized, helps to clarify who is in charge, and suggests how to respond to control problems. While principal-agent theory’s economic applications receive the most systematic attention, thinking about control and accountability and the best response to a loss of control is a widely relevant exercise. It makes us attentive to the standards, norms, and targets (“get your numbers,” as the watch commander urged) expected to guide the delivery of a task, the attribution of responsibility to the relevant actors in the delivery of a task, and, when necessary, what can be done to improve matters. What is more it suggests puzzles presented by actors not acting as the theory expects.

2

The idea behind *Why Delegate?* is to explore and to develop the logic of delegation, to show its wide application in our private and public lives, and to do so in an informal and accessible way. Of the pioneering treatments of delegation,⁴ few are written for a general

³ Jon Bendor, Amihai Glazer, and Thomas H. Hammond, “Theories of Delegation,” *Annual Review of Political Science* 4 (2001): 235.

⁴ See Kathleen M. Eisenhardt, “Agency Theory: An Assessment and Review,” *The Academy of Management Review* 14, no. 1 (1989): 57–74 for a review of the early literature. See also Jean-Jacques Laffont and David Martimort, *The Theory of Economic Incentives: The Principal Agent Model* (Princeton, NJ: Princeton University Press, 2002); Bengt Holmström, “Pay for

audience as well. In the process, of course, I do not want to leave behind academic colleagues.

To contribute to understanding how we negotiate hierarchical relations in our organizational and everyday lives with real-world applications in mind, I adopt the useful terms of *principal* and *agent*, but not the mathematical language of a principal-agent theorist. In the collision of the simple, elegant theory of economists and rational choice scholars with the actual policy and practice of delegation in a variety of situations, there are, I argue, further contributions to be had in working toward a broad, more descriptively useful logic of delegation. Important insights are to be found where the principal behaves in ways that are unexpected and perhaps puzzling to a rational choice eye.⁵ First, I argue and show that opportunism lies on both sides of the relationship, and nowhere as notably as when it comes to the distribution of blame.⁶ Here, it is the principal who acts opportunistically at the expense of the agent. Often she does so in a way not specified in the terms on which the agent entered into the relationship. While it may be difficult to predict which tasks a principal will be willing to delegate, that is not the case with blame. Carrying off the blame is one task that decision-makers almost invariably decide to pass to an agent (or, in a passage from Leviticus, to a goat). The issue of which tasks to pass to an agent and which not is

Performance and Beyond,” *American Economic Review* 107, no. 7 (2017): 1753–1777. There are excellent applications to particular policy areas, e.g., John Brehm and Scott Gates, *Working, Shirking and Sabotage* (Ann Arbor: Michigan University Press 1997), and to the bureaucracy, e.g., Gary J. Miller and Andrew B. Whitford, *Above Politics: Bureaucratic Discretion and Credible Commitment* (Cambridge: Cambridge University Press, 2015). Others have applied principal-agent theory to parliamentary government, e.g., Kaare Strom, Wolfgang C. Müller, and Torbjörn Bergman, *Cabinets and Coalition Bargaining: The Democratic Life Cycle in Western Europe* (Oxford: Oxford University Press, 2008), and to international organizations, e.g., Darren Hawkins, David Lake, Daniel Nielson, and Michael J. Tierney, *Delegation and Agency in International Organizations* (Cambridge: Cambridge University Press 2006).

⁵ I thank an anonymous reviewer for challenging me about the “puzzle for the rational choice eye.”

⁶ Neil J. Mitchell, *Agents of Atrocity: Leaders, Followers, And the Violation of Human Rights in Civil War* (New York: Palgrave MacMillan, 2004). For an exception to the conventional focus on efficiency gains see John R. Hamman, George Loewenstein and Roberto A. Weber, “Self-Interest Through Delegation: An Additional Rationale for the Principal-Agent Relationship,” *American Economic Review* 100, no. 4 (2010): 1826–1846.

an interesting question in itself. It turns out to be more complicated than the dictates of efficiency.

Second, in showing how the principal behaves in ways unexpected by the theory, the book uncovers her peculiar passivity under some conditions. Even when confronted by an agent's truly dreadful performance, an unexplored puzzle is why principals in some organizational contexts choose not to punish the opportunistic agent, as the conventional account of the relationship would lead us to expect.

On blame, *Why Delegate?* describes how shifting—or when the whistle blows, shoving—this unwelcome burden onto an agent is one of a range of incentives shaping delegation relationships. In principal-agent theory, opportunism belongs to the agent. Yet with the incentive to avoid damage to one's power and position, neither side in the delegation relationship can be trusted. A modified logic of delegation recognizes that while the division and specialization of labor and the allocation of the production and delivery of goods and services to all sorts of trades and professions are surely the engine of economic growth, the boundaries of delegation are not drawn by efficiency calculations alone. We delegate unwanted tasks, complex tasks, and sensitive, high-risk tasks. The incentives to delegate extend from efficiency calculations and saving time and effort to political calculations and saving reputations and managing the blame. It follows that although we equate the division of labor with economic and social progress, not all delegation contributes to the public good. As the motive for the division of labor and the decision to delegate shifts from the economic to the political, from saving time and effort and increasing efficiency to that of preserving power and saving reputations, delegation becomes more dubious. Sometimes the apparently rogue behavior of someone we give a task to is not a case of *can't control*, as the principal-agent theorists fear, but of *won't control*. Those in charge of the large corporation look away as contractors down the supply chain ignore child labor laws. Or when a scandal is exposed, those at the top shift the blame down to the lowest plausible level in the chain of delegation, to the “fall guy.”

The success of the “fall guy” strategy rests on an intuitive acceptance by the relevant audience of the tenets of principal-agent theory.