

**Economics**  
**Seminar**  
**Series**  
**2018**



**SOUTH ASIAN UNIVERSITY**  
**FACULTY OF ECONOMICS**

**Seminar**

***Heterogeneous Managers and Recruitment  
Practices: An Agency Model***

**Dr Samarth Gupta**

**National Council of Applied Economic Research**

**Date:** November 2, 2018  
(Friday)

**Time:** 2:30 p.m.

**Venue:** FSI Hall, Akbar Bhawan,  
Satya Marg, Chanakyapuri, New Delhi

**All are Welcome**

---

**ABSTRACT**

In this paper, I develop an agency model of a firm which contracts with managers who recruit workers. Managers face identical cost for searching an agent but vary in probability of recruiting a worker. First, I solve for the static contract which specifies a wage, contingent on productivity of the recruited worker. An increase in outside option for agents leads to less recruitment of low productivity recruits, implying higher average productivity of new recruits in the firms. However, increase in the incentives for agents to adjust with the higher outside options leads to a compensating decrease in wages for managers. This suppresses the incentives for managers to recruit workers leading to recruitment of low average productivity workers. I extend the model to multi-period renegotiation proof contracts to show how long-term delegation of identical tasks to heterogeneous managers may lead to adverse outcomes. The final result provides a rationale for why firms may refrain from adopting “good” management practices under heterogeneity in managerial skill.