In this innovative book, Gary Miller bridges the gap between traditional organizational theory, based in psychology, sociology, and political science, and organizational economics. The former stresses the importance of managerial leadership and cooperation among employees, while the latter focuses on the engineering of incentive systems that will induce efficiency, and profitability, by rewarding worker self-interest.

Miller demonstrates that it is impossible to design an incentive system based on self-interest that will effectively discipline all subordinates and superiors and overcome the role of political conflict or replace the role of leadership in an organization. Applying game theory to the analysis of cooperation and leadership in organizational hierarchies, he concludes that organizations whose managers can inspire cooperation and the transcendence of short-term interest among employees enjoy a significant competitive advantage.
THE POLITICAL ECONOMY OF INSTITUTIONS AND DECISIONS

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MANAGERIAL DILEMMAS

The political economy of hierarchy

GARY J. MILLER

Washington University
To Neil, who became
a scuba diver, juggler, and logician
all while I was working
on this one book
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This Cambridge series – The Political Economy of Institutions and Decisions – is built around attempts to answer two central questions: How do institutions evolve in response to individual incentives, strategies, and choices; and how do institutions affect the performance of political and economic systems? The scope of the series is comparative and historical rather than international or specifically North American, and the focus is positive rather than normative.

In this innovative study, Gary Miller tackles head-on a fundamental dilemma in the organizational economics literature. While the economic rationale for the existence of hierarchy is based on its capacity to correct market failure, this correction unavoidably creates consequences that are incentive incompatible between self-interested superiors and subordinates. How can managers inspire members of an organization to transcend the sort of self-interested behavior that results in shirking? Miller argues that those organizations whose managers can inspire members to transcend short-term self-interest will always have a competitive advantage. He employs modern game theory to provide a rigorous analysis of cooperation and political leadership in hierarchies.

This study bridges the literature on organizational economics and that on organizational behavior to provide new insights into the structure of hierarchies. In the context of the analysis of repeated games, the traditional concepts of cooperation, culture, trust, commitment, and leadership take on a richer meaning.
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