Delegating Performance Evaluation

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Abstract

We study optimal incentive contracts with multiple agents when performance evaluation is delegated to a reviewer. The reviewer may be biased in favor of the agents, but the degree of bias is unknown to the principal. We show that a contest, which is a contract in which the principal determines a set of prizes to be allocated to the agents, is optimal. By using a contest, the principal can commit to sustaining incentives despite the reviewer’s potential leniency bias. The optimal effort profile can be uniquely implemented by an all-pay auction with a cap. Our analysis has implications for various applications, such as the design of worker compensation or the allocation of research grants.

Keywords: performance evaluation, delegation, optimality of contests

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