

Title: “Back Scratching in Hierarchical Organizations”,

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Abstract: Reciprocity concerns have been widely emphasized as a positive characteristic of workers in organizations, where members’ interests are misaligned. We investigate the emergence of implicit collusive agreements in hierarchical organizations that only benefits some members while damaging the overall organization. We conduct a laboratory experiment in which an agent has to hire, on behalf of the principal, one worker out of two candidates. The two candidates differ in their ability and, once employed, the selected one decides which level of costly non-contractible effort to exert in two activities: one benefits the organization while the other one is less productive and only benefits the agent. We provide evidence that: i) low ability workers are more likely to exert effort in the inefficient activity that provides benefits solely to agents; ii) as a consequence, agents distort the hiring process in their favor and iii) sharing a small part of the organization’s profits with the workers alleviates effort distortion.