

# A Theory of Organizational Dynamics: Internal Politics and Efficiency

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*We consider a three-member organization in which one member retires in each period and the incumbent members vote to admit a candidate to fill the vacancy. Candidates differ in quality and belong to one of two types, and majority-type members share the total rent of that period. We characterize the symmetric Markov equilibria with undominated strategies and compare the long-term welfare among them. Unanimity voting is better than majority voting at promoting long-term welfare. In addition, organizations with a certain degree of incongruity perform better in the long run than either harmonious or very divided organizations.*

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The long-term health and survival of an organization depend crucially on its ability to attract high-caliber new members. However, internal politics, whereby different groups of incumbent members vie for control over the decision-making power of the organization, often interferes with admission of new members.<sup>1</sup> In the process of admitting a candidate into an organization, incumbent members will

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<sup>1</sup>See March (1962) and Pfeffer (1981) for discussions of internal politics. Other related discussions can be found in Milgrom and Roberts (1988, 1990) and Meyer, Milgrom and Roberts (1992).