

Organisational structure and differential treatment

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Abstract

This paper studies the effect of organisational structure on differential treatment in hiring and promotions in labour markets. Agents have unobservable types, observable signals and non-payoff-relevant categories, and a principal assigns the agents within an organisational hierarchy with different job positions and different capacities across the positions, to maximise surplus. I first introduce new metrics to quantify how much differential treatment is observed within an organisation. I then show that "flatter" organisational hierarchies result in less observable differential treatment when agents have increasing signal differences across categories. The results can also be applied beyond the context of organisations, to compare the extent of differential treatment in school assignments with vertically differentiated schools.