A Model of Succession and Policy Concerns

Álvaro Delgado-Vega* Benjamin Shaver

University of Chicago *University of Chicago*

July 19, 2024

Abstract

We study a career-concerns model with the leader of an organization and her heir-apparent, the follower. The leader designs a policy comprised of goals she shares with the follower and others that divide them. Whether the policy is successfully implemented depends of the leader's unknown quality and the follower's cooperation. After observing whether the follower cooperated and whether the policy was successfully implemented, a committee chooses whether to retain the leader or promote the follower. In equilibrium, the follower's succession concerns may lead him to cooperate to avoid blame for failure or to steal credit for success. The leader takes advantage of these succession concerns to achieve cooperation for a divisive policy. This means that when leader and follower have sufficient disagreement, the leader is only able to secure cooperation by leveraging succession. Finally, if the follower is optimally chosen, the leader always designs a divisive policy and the organization faces a competence-loyalty trade-off.

JEL Codes: D73, D23, D72

Keywords: Organizations; Political economy; Career concerns; Leadership; Political Parties

Word Count: 5905

*Álvaro Delgado-Vega: adelgadovega@uchicago.edu; Benjamin Shaver: blshaver@uchicago.edu. We are deeply grateful to Wioletta Dziuda, Antoine Loeper and Johannes Schneider for their guidance and advice. This paper benefited from helpful discussions with Scott Ashworth, Benjamin Blumenthal, Ethan Bueno de Mesquita, Georgy Egorov, Scott Gehlbach, Barton Lee, Zhaotian Luo, Antoni-Ítalo Moragas, Marc Möller, Konstantin Sonin, and Rubén Veiga. We also thank audiences at the Universities of Bern and Chicago, MPSA, and SIOE. An earlier version of this paper was circulated under the title "A Model of Succession." During part of this project, Á. Delgado-Vega was supported by a Postdoctoral Fellowship at the Chair of Political Economy and eDemocracy at ETH Zurich and before by the Doctoral Scholarship PRE2019-089897 at Universidad Carlos III de Madrid; he is grateful for his time there.

> *It is a story as old as the hills: the prince could not wait for the king to die. It's the essence of quite a few Shakespearean tragedies.*

—John Reid, Secretary of State for Scotland, about Tony Blair and Gordon Brown (B.B.C. (2021))

1 Introduction

Leaders often have an heir-apparent. Whether it's kings and princes, presidents and vice presidents, or CEOs and senior managers, cooperation between these individuals plays a crucial role in their organization's success. Yet, cooperation in these pairs may suffer due to two distinct features of their leader-heir relationship. First, cooperation takes place under the shadow of succession. As stories of princely rebellions suggest, the heir may put his ambition before the success of the organization. Second, the leader and the heir may disagree about the correct agenda for the organization. If the leader chooses an agenda the follower dislikes, the follower may not cooperate. However, while these issues point toward the difficulty of sustaining cooperation, the following example suggests that the heir's ambition and the leader's agenda setting may interact in more complex ways.

In the years leading to the Second World War, the British Prime Minister Neville Chamberlain championed a policy of appeasement towards Nazi Germany and Fascist Italy. In February 1938, his heir-apparent, Anthony Eden, resigned as Foreign Secretary in protest. The Conservatives who disagreed with appeasement hoped that Eden would marshal an opposition group to defy Chamberlain's policy. One of them wrote him

> "You alone can provide the leadership which will make these [anti-appeasement] elements in the party united and effective"[1]

However, Eden did not speak decisively against the Government. Instead, he retreated to the French Riviera for several months. Although different explanations have been raised for his inaction, Eden's career concerns may not be without relevance. As Bouverie (2019) explains,

> "Aware of his position as front-runner to succeed Chamberlain should the Prime Minister's policy be seen to fail, Eden considered that there was little to be gained by criticising the Government."

This anecdote poses interesting questions: When does an heir's path to succession require cooperation (either tacitly or explicitly) with their leader? Can leaders take advantage of their heirs' ambition to increase their leeway as agenda setters? To provide answers, we

[1] Quoted in Bouverie (2019)

formalize a career-concerns model with the leader (she) of an organization, her follower (he), and a committee responsible for selecting the organization's leader. The leader designs a policy for the organization to implement by weighing the goals she shares with the follower and those that divide them. Whether the policy is successfully implemented depends on the leader's unknown quality and the follower's cooperation. After observing the implementation outcome, the committee updates its beliefs about the leader, and chooses whether to retain her or promote the follower. Importantly, failure is more informative about the leader's quality when it occurs despite the follower's cooperation, and conversely, success is more informative when it occurs despite the follower's sabotage.

We first show that while sabotage is one path to the follower's succession, cooperation is another. Which path is available depends on the expected qualities of the leader and follower. If the expected qualities are similar, the leader is replaced after any failure, including failure partly due to sabotage. Hence, sabotage is a path to succession. This logic changes if the expected qualities are neither too close nor too far, so *how* success or failure occurs matters. For instance, when the leader is only replaced if she fails 'big'—that is, despite the follower's cooperation—succession concerns incentivize the follower to cooperate to avoid blame for failure. Similarly, when the leader is only retained if she succeeds 'alone'—that is, despite the follower's sabotage—the follower's succession concerns incentivize him to cooperate and steal credit for success. Therefore, we see how cooperation may also be a path to succession.

Anticipating that succession concerns compel the follower to cooperate, the leader can pull the agenda in her preferred direction while maintaining cooperation. When the expected qualities are neither too far nor too close, the leader exploits her own vulnerability to induce the follower to cooperate in implementing a policy he dislikes. The follower's ambitions lead to cooperation on a divisive agenda.

This contrasts with what happens for other combinations of the leader and follower's expected qualities. If the expected qualities are so close that the leader is replaced even after a failure partly due to sabotage, there are no policy concessions that will make the follower cooperate. As a result, the leader chooses her most-preferred policy. If the expected qualities of the leader and follower are so far away that the implementation outcome does not affect succession, the follower only cooperates if he genuinely likes the policy. This happens either when the leader is secure in her position or when she is a lame duck that is sure to be replaced. Such leaders need to be consensus-seekers because they cannot harness their heirs' succession concerns.

More generally, in equilibrium, policy divisiveness and cooperation are non-monotone with respect to the follower's expected quality. This result is especially stark if we consider situations in which the leader and the follower have significant disagreement about the

ideal policy. The leader must choose between securing the follower's cooperation by making concessions or choosing her most-preferred agenda, which the follower will sabotage. The latter temptation increases as the level of disagreement between the leader and follower increases. Hence, in cases of significant disagreement, cooperation only arises for cases where the leader and follower expected qualities are neither too far nor too close because the leader can leverage succession concerns.

We know from previous research that the approaching end of a leader's career affects her decision making: leaders against the ropes choose risky projects, gambling for resurrection (Downs and Rocke, 1994; Carrillo and Mariotti, 2001), and lame ducks choose their preferred policies since they lack career concerns (Barro, 1973). Our framework accounts for these cases. However, we also unveil a new theoretical mechanism: a vulnerable leader who takes advantage of her follower's succession concerns to pull policies towards her preferences. This vulnerable leader is not a lame duck—she has career concerns—and contrary to a leader who gambles for resurrection, this leader may not be particularly exposed to replacement. It suffices a minor vulnerability—for instance, that she will be replaced if she has a resounding failure—for our mechanism to exist.

We close by considering how the committee responds to the threat of sabotage if it can select the expected quality of the follower at the start of the game. Sabotage occurs in equilibrium when the agents' expected qualities are close. Hence, a committee concerned with success today and in the future faces a trade-off between selecting the follower with the highest expected quality—who sabotages—or selecting the best follower *who will cooperate*—but who is relatively lower expected quality. Perhaps interestingly, selecting the best follower *who will cooperate* makes the leader vulnerable to a 'big' failure. This has two implications. First, if the committee optimally selects the follower, regardless of whether it chooses the best follower or the best follower who cooperates, succession concerns play a key role in equilibrium. Second, the leader will not be a consensus-seeker, either because the follower will sabotage anyway or because the follower will cooperate to make the leader take all the blame for a failure. Lastly, we show that it is not necessarily true that the committee will select a mediocre follower who cooperates. When the leader is not of especially high quality, the committee prefers to select the best possible follower even if he sabotages.

Related Literature. Some of the closest papers to ours study the relationships of leaders and their collaborators and identify reasons why dysfunction might appear. Dewan and Myatt (2007) and Dewan and Myatt (2010) address cases where a leader fails to provide her collaborators with credible career incentives. When the follower enjoys an information advantage, Prendergast (1993) and Morris (2001) show the follower may not share his information because he is under the leader's subjective evaluation. In Egorov and Sonin

(2011), the follower's information advantage translates into 'back-stabbing.' Blanes I Vidal and Möller (2007) study the reverse situation, where the leader has an information advantage. Mattozzi and Merlo (2008), Zakharov (2016), and Dessein and Garicano (2023) focus on the outside options of high-quality collaborators. Geelen and Hajda (2024) studies a CEO's incentive to sabotage their potential successor by lowering his quality. In contrast, we focus on the other side of the leader-follower relationship—the follower's incentive to sabotage the leader—following an informational logic in which the follower modifies the informativeness and likelihood of the organization's outcomes. Lastly, Zhou (2023) studies the "crown-prince problem": a leader decides whether to increase her heir-apparent's political capital. Similar to our paper, Zhou shows that succession concerns can induce disarray within the organization. However, we also identify—as a result of microfounding political capital as a belief about the agents' quality—how succession concerns may foster unity.

This paper also contributes to the study of "mediocracy" in political parties (Caselli and Morelli, 2004; Mattozzi and Merlo, 2015) and to the competence-loyalty trade-off in autocracies (Debs, 2007; Egorov and Sonin, 2011; Lagerlöf, 2012; Zakharov, 2016), democracies (Galasso and Nannicini, 2011); and family firms (Burkart et al., 2003). In our model, a follower believed to be sufficiently close to his leader's quality will be a saboteur. This literature, however, has not studied how the competence-loyalty trade-off interrelates with the leader's agenda power. We show that a leader can exploit her follower's succession concerns to pursue her preferred policies, providing a new rationale for leaders to prioritize quality.

Finally, this paper relates to the literature on sabotage within politics. In Gieczewski and Li (2022) and Hirsch and Kastellec (2022), parties sabotage the policies of their adversaries, and in Heo and Wirsching (2024), bureaucrats sabotages policies they dislike. In these papers, as well as in ours, sabotage affects the information that can be learned from failed policy implementation. However, unlike in Hirsch and Kastellec (2022), the paper closest to ours, where the policy is determined exogenously, we study a model where the leader chooses it endogenously anticipating the threat of sabotage. This allows us to study the interaction between sabotage and agenda setting.

2 The Model

Consider a career-concerns model with three players who belong to the same organization, the organization's committee (it) and two agents: a leader (she), ℓ, and her follower (he), f. At the start of the game, the organization is directed by the leader, whose heir-apparent is the follower.

The leader and the follower are each high quality or not, and their quality is unknown to every player. We denote the leader's and follower's quality by $k_\ell \in \{H, L\}$ and $k_f \in \{H, L\}$,

respectively, and the prior probabilities of being high quality by $\theta \equiv Pr(k_\ell = H)$ and $\theta^f \equiv Pr(k_f = H)$ (hereafter referred to as expected quality).

Timing. The game has three stages.

(i) *Agenda-setting stage:* The leader designs a policy by choosing $w \in [0, \bar{w}]$. This policy may be interpreted as a project that needs to be carried out, a bill that needs to be approved, or an electoral platform.

(ii) *Implementation stage:* The follower chooses whether to cooperate in implementing the policy, $e \in \{0, 1\}$, where 1 denotes cooperation. Then, the organization succeeds or fails in implementing the policy. Success occurs with probability $p(k_\ell, e)$, which depends on the leader's quality k_l and the follower's cooperation e.

(iii) *Succession stage:* The committee observes whether implementation succeeded. Then, it retains the current leader or promotes the follower.

Learning. The implementation outcome is stochastic and dichotomous; there is either success or failure. Given the belief θ, and abusing notation, we denote the expected success probability by:

$$p(\theta, e) := \theta p(H, e) + (1 - \theta)p(L, e).$$

After the implementation stage, the committee forms an updated belief about the leader's quality.[2] Given the follower's cooperation e, we denote by $\overline{\theta}_e$ the belief after success and by $\underline{\theta}_e$ the belief after failure.

We impose the following structure on the function $p(k, e)$.

Assumption 1 *(i) The probability of success increases in the leader's quality and the follower's cooperation:* $1 > p(H, e) > p(L, e) > 0$ *for any* $e \in \{0, 1\}$ *and* $1 > p(k, 1) > p(k, 0) > 0$ *for any* $k \in \{H, L\}$.

(ii) The probability of success satisfies:

$$\frac{p(H,1)}{p(L,1)} \leq \frac{p(H,0)}{p(L,0)} \quad \textit{and} \quad \frac{1-p(L,0)}{1-p(H,0)} \leq \frac{1-p(L,1)}{1-p(H,1)}.$$

Part (i) implies that success is more likely when the leader is high quality or the follower cooperates. Furthermore, since none of the outcomes is certain, neither success nor failure perfectly reveals the leader's quality.[3] Part (ii) relates to the informativeness of outcomes in the sense of how they change the posterior belief about the leader's quality. We assume failure is more informative when it occurs despite the follower's cooperation, and success

[2] In our setting implementation is only informative about the leader's type. Returning to the example of Chamberlain and Eden, whether appeasement succeeded would be informative about Chamberlain's ability but not Eden's.

[3] This assumption is not essential, but assuming perfectly-revealing outcomes leads to a loss of richness in our results.

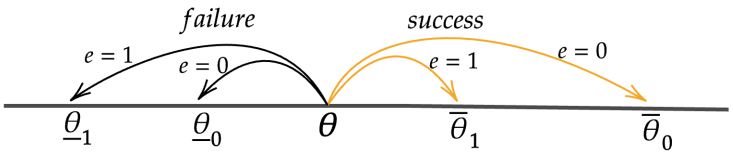

Figure 1: Updating on the leader's quality.

is more informative when it is despite the follower's sabotage. Hence, the updating on the leader's quality is as follows:

$$\underline{\theta}_1 < \underline{\theta}_0 < \theta < \overline{\theta}_1 < \overline{\theta}_0.$$

Figure 1 represents this notion. Several natural functional forms satisfy Assumption 1. In some cases quality and effort enter additively, hence operating as substitutes, e.g.,

$$p(\theta, e) = v + me + a\theta, \tag{1}$$

where $v > 0, m > 0, a > 0$. Others cases give quality and effort some degree of complementarity, e.g.,

$$p(\theta, e) = v + m + (a_0 + a_1 e)\theta, \tag{2}$$

where $a_0 > 0$, and $a_1 < \frac{a_0 m}{v}$.[4]

Payoffs. The follower incurs a cost $c \geq 0$ from cooperating and both agents derive a policy payoff from successful implementation. If the organization succeeds, the leader derives a policy payoff $\varphi + w$ and the follower, $\varphi - w$. Hence, there is a public-good component captured by $\varphi > 0$, and a zero-sum component captured by $w \in [0, \bar{w}]$, which represents disagreement between the leader and the follower.[5] If the organization fails, the policy payoff is zero. In addition, agents receive an office rent $b > 0$ if they hold power at the end of the game. We assume this rent is greater than the public-good component of the policy, i.e., $b > \varphi$.[6] The committee values selecting the best available leader for the organization.

[4]This assumption ensures the functional form satisfies Assumption 1 (see the Supplemental Appendix).

[5]An alternative formulation is to assume the leader and the follower have ideal points, $x_l, x_f \in \mathbb{R}$, the leader selects a policy $\hat{x} \in \mathbb{R}$, and if the policy is implemented, the leader receives $\varphi - |x_l - \hat{x}|$ and the follower, $\varphi - |x_f - \hat{x}|$.

[6]Hence, regardless of the leader's policy concessions, the follower sabotages if that is his only way of attaining promotion. Our insights, however, do not require such assumption, and precisely show how succession concerns may induce cooperation, not sabotage.

Assumption 2

$$\bar{w} > \varphi + \frac{\max\{p(\theta,0), 1-p(\theta,1)\}b - c}{p(\theta,1) - p(\theta,0)}$$

This assumption implies that the disagreement between the leader and the follower is sufficient for the the leader to face a trade-off between securing cooperation and choosing her most-preferred agenda.[7]

3 Interpretation

Organizations. We view this model as applying to organizations whose leader is under threat of replacement by another member. A natural application is a firm, where a manager may be groomed for CEO succession many years prior to her promotion (Mobbs and Raheja, 2012; Cannella Jr and Shen, 2001). In this context, the committee represents the board of directors. Another natural setting are political parties, where the committee represents the "selectorate" that decides on succession. This selectorate depends on party rules, which are diverse. For instance, across history, US parties have had primary elections, national conventions and congressional caucuses; European parties traditionally selected their leaders in a party congress, but primaries have become increasingly widespread.

Disadvantaged Leaders. We allow for the follower to be of higher expected quality than the leader at the start of the game. Although this situation may seem uncommon, it is nonetheless possible. For example, in Presidential systems where the term in office is fixed, bad news might be revealed about the leader in a moment when she cannot be immediately replaced.[8]

4 Analysis

We solve the game by backward induction. The committee promotes the follower if, after observing the implementation outcome, it believes that he is more likely to be high quality than the leader. Figure 2 displays the universe of possible succession cases and the following lemma summarizes them.

Lemma 1 *(i) When θ and θ^f are sufficiently far, succession is independent of the implementation outcome.*

(ii) When θ and θ^f are sufficiently close, succession is determined by the implementation outcome.

[7] In the Appendix, we characterize equilibria for all $\bar{w}$.

[8] The French President François Hollande had low approval ratings for almost the entirety of his presidency. When in 2014 he appointed Manuel Valls as Prime Minister, it was biggest spread in rating between a French president and his prime minister ever recorded.

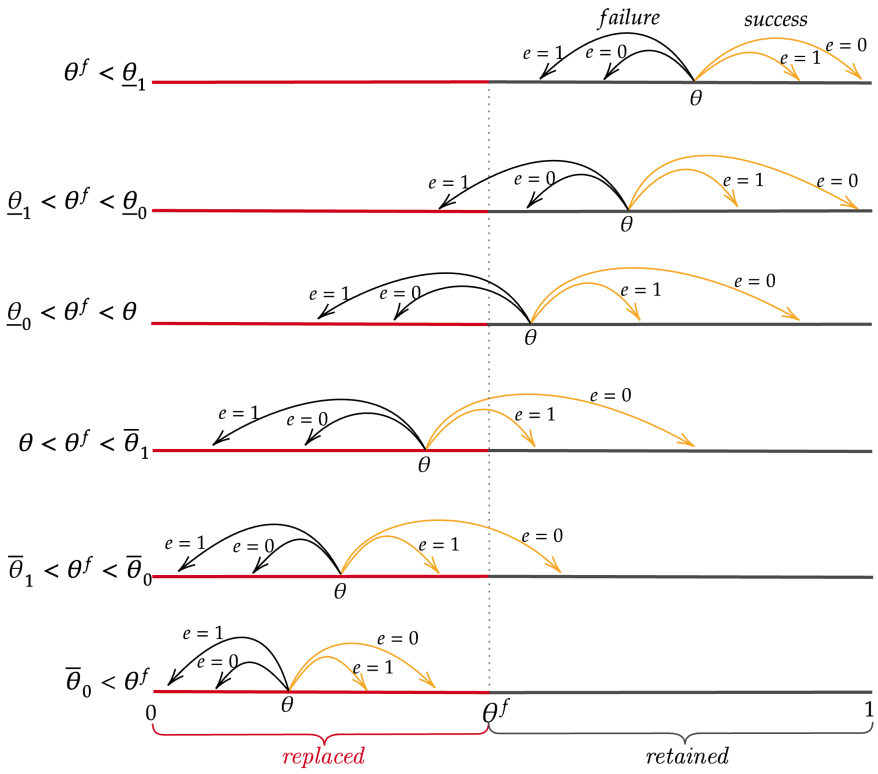

Figure 2: Succession cases given the follower's quality θ^f.

(iii) When θ and θ^f are neither too far nor too close, succession depends on the implementation outcome and on whether the follower cooperates.

This lemma shows that a region exists where succession is determined by the implementation outcome but also, importantly, by the way the follower's choice affects the informativeness of said outcome. If $\underline{\theta}_1 < \theta^f < \underline{\theta}_0$, the leader is retained unless she fails 'big,' that is, she fails despite the follower's cooperation. And if $\overline{\theta}_0 < \theta^f < \overline{\theta}_1$, the leader is replaced unless she succeeds 'alone,' that is, she succeeds despite the follower's sabotage.

Having solved for the committee's promotion decision, we consider the leader's agenda-setting decision and how it affects the follower's cooperation choice. The leader can always choose her preferred policy, $w = \bar{w}$. However, by Assumption 2, the follower will not cooperate with such an agenda. Naturally, the alternative for the leader is to make sufficient concessions to induce cooperation. The following lemma characterizes the leader's optimal choice in the latter case.

Lemma 2 *Suppose the leader wants to induce cooperation. When θ and θ^f are sufficiently close, there is no w that can induce cooperation. Otherwise, she optimally chooses:*

(i) $w^* = \varphi - \frac{c}{p(\theta,1)-p(\theta,0)}$ *when θ and θ^f are sufficiently far.*

(ii) $w^* > \varphi - \frac{c}{p(\theta,1)-p(\theta,0)}$ *when θ and θ^f are neither too far nor too close.*

This lemma establishes first that the leader may not be able to secure cooperation. When θ and θ^f are sufficiently close, any failure leads to a succession, including a failure facilitated by sabotage. Then, since succession concerns dominate policy concerns (i.e., $\varphi < b$), the follower wants to maximize the probability of failure and the leader cannot induce him to cooperate.

Outside that region, cooperation can be incentivized through policy concessions. The lemma shows that the degree of such concessions depends on whether the follower's action is relevant to succession. If the leader will never be replaced—she is secure—or if she is too weak—she is a lame duck—the follower's action and the implementation outcome are irrelevant to succession. Therefore, the follower's only incentive to cooperate comes from policy concerns. In particular, he will cooperate if and only if

$$(p(\theta, 1) - p(\theta, 0))(\varphi - w^*) \geq c, \tag{3}$$

so the leader's optimal concession makes this inequality bind.

However, if θ and θ^f are neither too far nor too close, succession depends on whether the follower cooperates. This means the follower has an additional incentive to cooperate, which comes from succession concerns. First, if the leader is only replaced if is she fails 'big', the

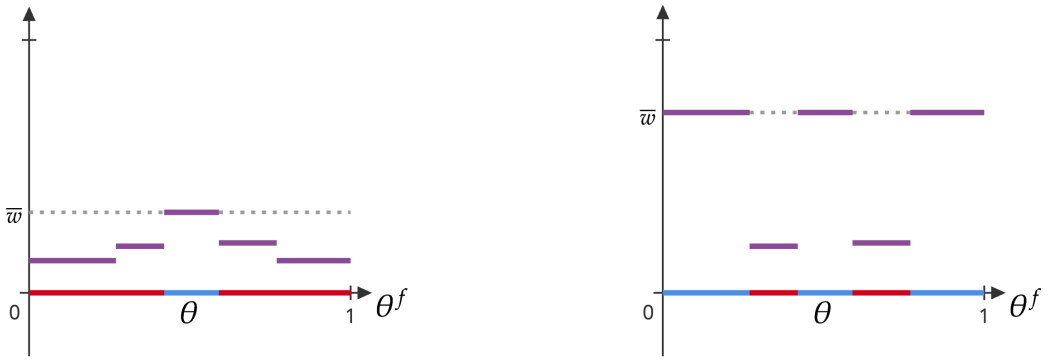

Figure 3: Equilibrium policy divisiveness and cooperation as a function of the follower's expected quality with $\theta = \frac{1}{2}$, success probability (1), $\varphi = \frac{1}{10}, c = 0, v = \frac{1}{10}, m = \frac{1}{2}, a = \frac{1}{4}$, and $b = \frac{1}{10}$. In the left panel, $\bar{w} = \frac{1}{4}$, and in the right panel, $\bar{w} = \frac{14}{25}$. On the x-axis, red indicates cooperation and blue indicates sabotage.

follower cooperates if and only if

$$(p(\theta, 1) - p(\theta, 0))(\varphi - w^*) + (1 - p(\theta, 1))b \geq c. \tag{4}$$

Second, if the leader is only retained if she succeeds 'alone', the follower cooperates if and only if

$$(p(\theta, 1) - p(\theta, 0))(\varphi - w^*) + p(\theta, 0)b \geq c. \tag{5}$$

As a result of the follower's additional incentive to cooperate, the w which makes either of these equations bind is greater than the w that makes (3) bind. Thus, we see that vulnerable leaders—as opposed to secure ones or lame ducks—have an additional tool to obtain cooperation by leveraging their followers' succession concerns. These vulnerable leaders are able to maximize the probability of implementation of policies closer to their bliss point. However, this comes at a cost. For a leader who is replaced if she fails 'big,' incentivizing cooperation opens the door for succession. For a leader who needs to gamble for resurrection by succeeding 'alone,' incentivizing cooperation ends any hope to retain office.

The preceding discussion allows us to present now our main results.[9]

Proposition 1 *There exists some cutoff $\bar{W}$ such that if $\bar{w} < \bar{W}$, then*

(i) policy divisiveness, w^*, is non-monotone with respect to θ^f and attains its maximum where θ and θ^f are sufficiently close,

(ii) and the follower cooperates if θ and θ^f are sufficiently far.

[9]In the Appendix we provide the full characterization of equilibrium behavior, including the closed-form representation of $\bar{W}$.

Recall that by Assumption 2, the leader faces a trade-off in equilibrium: she can either choose her most-preferred agenda—in which case the follower sabotages—or a less divisive agenda that secures the follower's cooperation. For a sufficiently small $\bar{w}$, she prefers to secure cooperation whenever possible. This means that policy divisiveness and cooperation are both is non-monotone with respect to θ^f, which is depicted in the left panel of Figure 3. When θ and θ^f are far, the leader can secure the follower's cooperation but cannot leverage succession concerns. As θ and θ^f get closer, the leader is able to leverage succession concerns, allowing her to secure cooperation with a relatively more divisive agenda. But when θ and θ^f are sufficiently close, the leader cannot longer secure the follower's support, and instead she chooses her most-preferred agenda.

Proposition 2 *Suppose $\bar{w} > \bar{W}$. If the follower cooperates in equilibrium, the leader leverages succession concerns (i.e., θ and θ^f are neither too close nor too far away).*

As $\bar{w}$ increases, the leader's temptation to choose her most-preferred agenda increases. As the left panel of Figure 3 shows, this temptation is particularly acute when θ and θ^f are far, since that is when the leader is forced to make significant policy concessions to induce the follower to cooperate. Because when θ and θ^f are neither too close nor too far the leader can leverage succession concerns and obtain cooperation for a relatively more divisive agenda, as $\bar{w}$ increases, the last regions where cooperation is sustained are the regions where the leader leverages succession concerns. This is depicted in the right panel of Figure 3.

4.1 Discussion

Our results have a number of implications for the study of leaders in organizations. First, we show how leaders can either take advantage of their follower's succession concerns to pursue their preferred agenda or use their agenda setting power to protect their hold on power. This advantage is neither enjoyed by secure leaders nor by lame ducks, but by those leaders whose hold on power depends not only on whether they fail (or succeed) but on *how* they do it. When a leader will be replaced only if she fails 'big', the follower needs to cooperate with them to ensure they receive all the blame for failure. Analogously, when the leader only retains power if she succeeds 'alone', the follower cooperates to steal credit. Anticipating this, the leader can either induce the follower to support an agenda he dislikes, or on the contrary, pursue an extremely divisive agenda, leading the follower to sabotage and thus increase her probability of retaining power.

This observation about the interaction between agenda power and sabotage is absent from the literature on intra-party competition. If anything, existing research points to how sabotage weakens the leader's agenda power. For instance, Izzo (2023) studies the interplay of intra-party sabotage and the leader's agenda power, and finds that by hurting the electoral

prospects of the leader of their party, a mis-aligned politician can force the leader to choose polices the leader dislikes but that the mis-aligned politician prefers. Unlike Izzo, we find that a leader who is sabotaged in equilibrium designs a policy that maximizes her policy payoff.

Second, we identify a limitation in the agenda-setting power of secure leaders and lame ducks. Since they cannot exploit the follower's succession concerns, they need to offer policy concessions to avoid being sabotaged. The academic literature and political commentary have often established that strong leaders and lame ducks are more capable of obtaining their preferred policies. However, we show this prediction may be incorrect if policy implementation requires the cooperation of an heir-apparent, who needs to be adequately incentivized. Our result, although it differs from some traditional views, is congruent with the empirical evidence on lame-duck CEOs, whose effectiveness has been documented by Gabarro et al. (2018).

Third, leaders whose perceived quality is too close to their followers' are haunted by their followers' succession concerns. Such leaders pursue their preferred policies but are sabotaged. Hence, our model predicts a rather familiar sight for any political pundit: weak leaders will head parties plagued with factional strife, will issue manifestos disliked by their collaborators, and will be replaced as soon as they fail once.[10]

To conclude this section, we consider the following remark.

Remark 1 *The leader's expected payoff as a function of θ^f is (weakly) highest when θ and θ^f are neither too close nor too far away.*

An intriguing consequence follows from this result. If a leader of expected quality θ is given the opportunity to select any follower from a continuum of expected qualities $[0, \theta)$, the leader will select a follower who will replace her after a resounding failure. This insight echoes the literature on 'mediocracy' (Caselli and Morelli, 2004; Mattozzi and Merlo, 2015) and shows how a leader will prioritize an intermediate quality heir-apparent but will not secure her hold on power.

5 Competence-Loyalty Trade-off

Since followers sabotage when they have an expected quality closely similar to their leaders, it is natural to ask whether the organization has a preference for secure leaders and low-quality followers. In this section, we show this is not necessarily the case. The committee may choose a high-quality follower who sabotages, irrespectively of whether quality and cooperation are complements or substitutes.

[10] In 2015, Jeremy Corbyn was elected leader of the British Labour Party with little support from the parliamentary group. Having always been an eurosceptic, Corbyn made little effort to defend the Remain option in the Brexit referendum. His decision sprung criticism and surprise among many party notables. After the referendum, 23 (out of the 31) Shadow Cabinet members resigned and a motion of no confidence in Corbyn as party leader was tabled.

We extend our model by assuming that at the start of the game, the committee selects a follower from a continuum of candidates whose expected quality is the interval $[0, \theta)$. We also introduce a slight change in the committee's payoff: it receives φ if the organization succeeds and, to make payoffs comparable in a transparent way, it receives $p(\theta, 1)\varphi$ from selecting a leader of (expected) quality θ at the end of the game.[11] This payoff assumption is equivalent to assuming the committee is a utilitarian social planner who values the overall success of the organization, disregarding the policy disagreement between leader and follower. We restrict to values of $\bar{w}$ such that cooperation is attained in equilibrium at least for some pair of agents' qualities.

It is immediate to see that the committee will choose one of two candidates: either the best follower or the best follower *who will cooperate*. Since the best follower who will cooperate is of lower expected quality than the best follower, these candidates illustrate the committee's competence-loyalty trade-off. When cooperation is crucial for success or the future replacement of the leader is considered unlikely, the committee may want a cooperative follower even if he is of lower expected quality. But when cooperation is relatively less important or the leader's replacement seems more likely, the committee could prefer to select the best possible follower.

Perhaps interestingly, even if the best follower *who will cooperate* is mediocre, he will replace the leader if she fails 'big'.[12] Hence, if the follower is optimally chosen, succession concerns always play a key role on the follower's cooperation choice.

In addition, when leaders are selected by the committee, they never behave as consensus-seekers that cater to their follower's policy preferences—either because the follower will sabotage in any case, or because the leader can exploit her vulnerability to obtain greater leeway as the agenda-setter. The following remark summarizes this notion.

Remark 2 *If the follower is optimally chosen, succession concerns enters into the follower's calculus and policy is divisive, i.e.,* $w \geq \min\{\hat{w}^V, \bar{w}\}$.

The following proposition shows that when expected quality and cooperation are perfect complements, the committee might select the best follower even if he will be a saboteur.

Proposition 3 *Consider* $p(\theta, e) = v + \theta(a_0 + a_1 e)$. *If* v *and* a_1 *are sufficiently small and* a_0 *is sufficiently large, there exists a* $\bar{\theta}_c \in (0, 1)$ *such that if* $\theta \leq \bar{\theta}_c$, *the committee selects the best follower.*

Two effects make the follower's expected quality especially valuable when the leader is of lower expected quality. First, when the leader is more likely to fail, having a promising successor is

[11] None of these assumptions modify the committee's incentives in the baseline model.

[12] Note that in the case in which the organization chooses the best follower *who will cooperate* there exists no conflict of interest between the leader and the organization.

more valuable. Second, since quality and cooperation are complements, cooperation is more productive when a leader is of higher quality.

The next proposition addresses the same choice when quality and cooperation are perfect substitutes. Relative to the case with complementarity, follower's quality takes primacy when the leader's expected quality is intermediate.

Proposition 4 *Consider $p(\theta, e) = v + me + a\theta$. If m or v are sufficiently small, there exists a pair $(\underline{\theta}_s, \bar{\theta}_s) \in (0,1)$ such that if $\theta \in [\underline{\theta}_s, \bar{\theta}_s]$, the committee selects the best follower.*

Similarly to Proposition 3, high-quality leaders render promising successors less important. But different to the case of complementarity, the substitutability between cooperation and quality makes cooperation more relevant also if leaders are of low expected quality. As the belief about the leader's quality decreases, cooperation becomes a better substitute. In addition, when the leader is of low expected quality, failure produces a minor update, and hence selection loses effectiveness.

6 Conclusions

We presented a model on how succession concerns impact leaders' policy choices and the internal cohesion of organizations. In the model, the leader designs an agenda and her follower chooses whether to cooperate with her under the shadow of succession. We show that cooperation can be a promising path to succession: by cooperating, the follower steals credit for the leader's successes and avoids blame for her failures. As a result, the leader can leverage the follower's desire for succession to pursue her most-preferred agenda at the follower's expense.

References

Barro, R. J. (1973): "The control of politicians: an economic model," *Public Choice*, 19–42.

B.B.C. (2021): *Blair & Brown: The New Labour Revolution*.

Blanes I Vidal, J. and M. Möller (2007): "When should leaders share information with their subordinates?" *Journal of Economics & Management Strategy*, 16, 251–283.

Bouverie, T. (2019): *Appeasing Hitler: Chamberlain, Churchill and the road to war*, Random House.

Burkart, M., F. Panunzi, and A. Shleifer (2003): "Family firms," *The Journal of Finance*, 58, 2167–2201.

Cannella Jr, A. A. and W. Shen (2001): "So close and yet so far: Promotion versus exit for CEO heirs apparent," *Academy of Management Journal*, 44, 252–270.

Carrillo, J. D. and T. Mariotti (2001): "Electoral competition and politician turnover," *European Economic Review*, 45, 1–25.

Caselli, F. and M. Morelli (2004): "Bad politicians," *Journal of Public Economics*, 88, 759–782.

Debs, A. (2007): "Political Strength and Economic Efficiency in a Multi-Agent State," .

Dessein, W. and L. Garicano (2023): "La Cordata: Loyalty in Tournaments," *Working Paper*.

Dewan, T. and D. P. Myatt (2007): "Scandal, protection, and recovery in the cabinet," *American Political Science Review*, 101, 63–77.

——— (2010): "The declining talent pool of government," *American Journal of Political Science*, 54, 267–286.

Downs, G. W. and D. M. Rocke (1994): "Conflict, agency, and gambling for resurrection: The principal-agent problem goes to war," *American Journal of Political Science*, 362–380.

Egorov, G. and K. Sonin (2011): "Dictators and their viziers: Endogenizing the loyalty–competence trade-off," *Journal of the European Economic Association*, 9, 903–930.

Gabarro, M., S. Gryglewicz, and S. Xia (2018): "Lame-Duck CEOs," *Working Paper*.

Galasso, V. and T. Nannicini (2011): "Competing on good politicians," *American Political Science Review*, 105, 79–99.

Geelen, T. and J. Hajda (2024): "Succession," *Working Paper*.

Gieczewski, G. and C. Li (2022): "Dynamic policy sabotage," *American Journal of Political Science*, 66, 617–629.

Heo, K. and E. M. Wirsching (2024): "Bureaucratic Sabotage and Policy Inefficiency," *Working Paper*.

Hirsch, A. V. and J. P. Kastellec (2022): "A theory of policy sabotage," *Journal of Theoretical Politics*, 34, 191–218.

Izzo, F. (2023): "With friends like these, who needs enemies?" *Journal of Politics*, forthcoming.

Lagerlöf, N.-P. (2012): "A Dynamic Theory of Competence, Loyalty and Stability in Dictatorships," *The BE Journal of Macroeconomics*, 12.

Mattozzi, A. and A. Merlo (2008): "Political careers or career politicians?" *Journal of Public Economics*, 92, 597–608.

——— (2015): "Mediocracy," *Journal of Public Economics*, 130, 32–44.

Mobbs, S. and C. G. Raheja (2012): "Internal managerial promotions: Insider incentives and CEO succession," *Journal of Corporate Finance*, 18, 1337–1353.

Morris, S. (2001): "Political correctness," *Journal of Political Economy*, 109, 231–265.

Prendergast, C. (1993): "A theory of" yes men"," *The American Economic Review*, 757–770.

Zakharov, A. V. (2016): "The loyalty-competence trade-off in dictatorships and outside options for subordinates," *The Journal of Politics*, 78, 457–466.

Zhou, C. (2023): "Last step to the throne: the conflict between rulers and their successors," *Political Science Research and Methods*, 11, 80–94.

A Appendix

A.1 Proofs of Lemmas 1 and 2

Define the following:

$$\hat{w}^S \equiv \varphi - \frac{c}{p(\theta,1)-p(\theta,0)},$$
$$\hat{w}^V \equiv \hat{w}^S + \frac{1-p(\theta,1)}{p(\theta,1)-p(\theta,0)}b,$$
$$\hat{w}^T \equiv \hat{w}^S + \frac{p(\theta,0)}{p(\theta,1)-p(\theta,0)}b.$$

Lemmas 1 and 2 immediately follow from the following proposition, which characterizes equilibria for any $\bar{w}$, not just those that satisfy Assumption 2.

Proposition 5 *A unique equilibrium exists almost everywhere.*

(i) If $\theta^f \leq \underline{\theta}_1$, when (3) holds, $w^* = \min\{\hat{w}^S, \bar{w}\}$ and the follower cooperates; otherwise, $w^* = \bar{w}$ and the follower sabotages. The leader is retained.

(ii) If $\underline{\theta}_1 < \theta^f \leq \underline{\theta}_0$, when (4) holds, $w^* = \min\{\hat{w}^V, \bar{w}\}$, the follower cooperates, and the leader is retained only after success. Otherwise, $w^* = \bar{w}$, the follower sabotages, and the leader is retained.

(iii) If $\underline{\theta}_0 < \theta^f \leq \overline{\theta}_1$, $w^* = \bar{w}$, the follower sabotages, and the leader is retained only after success.

(iv) If $\overline{\theta}_1 < \theta^f \leq \overline{\theta}_0$, when (5) holds, $w^* = \min\{\hat{w}^T, \bar{w}\}$, the follower cooperates, and the leader is replaced. Otherwise, $w^* = \bar{w}$, the follower sabotages, and the leader is retained after success.

(v) If $\overline{\theta}_0 < \theta^f$, when (3) holds, $w^* = \min\{\hat{w}^S, \bar{w}\}$ and the follower cooperates; otherwise, $w^* = \bar{w}$ and the follower sabotages. The leader is replaced.

Proof of Proposition 5

We consider each possible pair of expected qualities after the implementation outcome is revealed. After updating, the committee selects between the leader and the follower the one it believes to be more likely high quality. In case of indifference, we assume the committee keeps the leader in place.

If $\theta^f \leq \underline{\theta}_1$ or $\overline{\theta}_0 < \theta^f$, the follower cooperates if and only if

$$p(\theta,1)(\varphi - w) - c \geq p(\theta,0)(\varphi - w) \Leftrightarrow \hat{w}^S \geq w.$$

Since $w = \hat{w}^S$ maximizes the leader's utility conditional on the follower cooperating, $w^* \in \{\bar{w}, \hat{w}^S\}$. If $\hat{w}^S \geq \bar{w}$, the follower cooperates for any w, so $w^* = \bar{w}$. If $\hat{w}^S < \bar{w}$, the leader

faces a trade-off and chooses $w^* = \hat{w}^S$ if and only if

$$p(\theta,1)(\varphi+\hat{w}^S) \geq p(\theta,0)(\varphi+\bar{w})$$
$$\Leftrightarrow (p(\theta,1)-p(\theta,0))2\varphi - c - p(\theta,0)(\bar{w}-\hat{w}^S) \geq 0. \tag{6}$$

If $\underline{\theta}_1 < \theta^f \leq \underline{\theta}_0$, the follower cooperates if and only if

$$p(\theta,1)(\varphi-w)+(1-p(\theta,1))b-c \geq p(\theta,0)(\varphi-w) \Leftrightarrow \hat{w}^V \geq w.$$

If $\hat{w}^V \geq \bar{w}$, the follower cooperates for any w, so $w^* = \bar{w}$. If $\hat{w}^V < \bar{w}$, the leader chooses $w^* = \hat{w}^V$ if and only if

$$p(\theta,1)(\varphi+\hat{w}^V) \geq p(\theta,0)(\varphi+\bar{w}) \tag{7}$$
$$\Leftrightarrow (p(\theta,1)-p(\theta,0))2\varphi - c - p(\theta,0)(\bar{w}-\hat{w}^V) \geq 0. \tag{8}$$

If $\underline{\theta}_0 < \theta^f \leq \overline{\theta}_1$, the follower cooperates if and only if

$$p(\theta,1)(\varphi-w)+(1-p(\theta,1))b \geq p(\theta,0)(\varphi-1)+(1-p(\theta,0))b,$$

which holds for no w, hence $w^* = \bar{w}$.

If $\hat{\theta}_1 < \theta^f \leq \overline{\theta}_0$, the follower cooperates if and only if

$$p(\theta,1)(\varphi-w)+b-c > p(\theta,0)(\varphi-w)+(1-p(\theta,0))b \Leftrightarrow \hat{w}^T \geq w$$

If $\hat{w}^T \geq \bar{w}$, the follower cooperates for any w, so $w^* = \bar{w}$. If $\hat{w}^T < \bar{w}$, the leader chooses $w^* = \hat{w}^T$ if and only if

$$(p(\theta,1)-p(\theta,0))2\varphi - c - p(\theta,0)(\bar{w}-\hat{w}^T) \geq 0. \ \square \tag{9}$$

A.2 Proofs of Propositions 1 and 2

Proof of Proposition 1. Condition (6) holds if and only if

$$\bar{w} < \frac{(p(\theta,1)-p(\theta,0))2\varphi - c}{p(\theta,0)} + \hat{w}^S \equiv \bar{W}.$$

If (6) holds, since $\min\{\hat{w}^V, \hat{w}^T\} > \hat{w}^S$, (7) and (9) also hold. Hence, if (6) holds, there is cooperation if $\theta^f \leq \overline{\theta}_0$ and if $\underline{\theta}_1 < \theta^f$ and sabotage otherwise. Policy divisiveness is weakly non-monotone with respect to θ^f since $\bar{w} \geq \min\{\hat{w}^V, \bar{w}\} \geq \min\{\hat{w}^S, \bar{w}\}$ and $\bar{w} \geq \min\{\hat{w}^T, \bar{w}\} \geq \min\{\hat{w}^S, \bar{w}\}$. $\square$

Proof of Proposition 2. If (6) is not satisfied, the leader may induce cooperation at the most in the joint region $\underline{\theta}_1 < \theta^f \leq \underline{\theta}_0$ and $\overline{\theta}_1 < \theta^f \leq \overline{\theta}_0$. $\square$

Proof of Remark 1. Note that the leader's expected payoff from selecting $w^* = \bar{w}$ is constant in θ^f. We have previously shown that (6) always holds for a $\bar{w}$ for which either (7)

or (9) hold. Hence, the leader's expected utility in equilibrium is weakly higher in the joint region $\overline{\theta}_1 < \theta^f \leq \overline{\theta}_0$ and $\overline{\theta}_1 < \theta^f \leq \overline{\theta}_0$ than in other regions. □

A.3 Proofs of Propositions 3 and 4:

If $\theta > \theta^f$, the committee's payoff given some e is

$$u_c(\theta, x, e) = p(\theta, e)(1 + p(\overline{\theta}_e, e)) + (1 - p(\theta, e))p(x, e),$$

where x is the expected quality after failure. To obtain $u_c(\theta, x, e)$ for the best follower that cooperates we substitute $e = 1$ and $x = \underline{\theta}_0$, and for the best follower, $e = 0$ and $x = \theta$. Let $\Delta(\theta) \equiv u_c(\theta, \underline{\theta}_0, 1) - u_c(\theta, \theta, 0)$.

Proof of Proposition 3. We consider $p(\theta, e) = v + \theta(a_0 + a_1 e)$ with $v = 0$ since v makes failure less likely and hence makes the follower's quality less relevant. Then, $u_c(\theta, \underline{\theta}_0, 1) = \frac{(a_0+a_1)(2+a_1(1-\theta)-2a_0\theta)\theta}{1-a_0\theta}$, $u_c(\theta, \theta, 0) = \theta(a_1 + a_0(2 + (a_0 + a_1)(1 - \theta)))$ and

$$\Delta(\theta) = \frac{\theta}{1 - a_0\theta}\big[a_1(1 + a_1(1 - \theta)) - a_0 a_1\theta - a_0^2(1 - \theta)(1 - (a_1 + a_0)\theta)\big],$$

Note first that $\Delta(0) = 0$ and $\Delta(1) = a_1$. We focus now on the expression between brackets, which equals $a_1(1 + a_1) - a_0^2$ if $\theta = 0$. Hence, for a sufficiently great a_0, $\Delta(\theta) < 0$ in a neighbourhood of $\theta = 0$. □

Proof of Proposition 4. Given (1), $u_c(\theta, \underline{\theta}_0, 1) = 2(m + v + a\theta) + \frac{\theta m a^2(1-\theta)}{1-v-a\theta}$ and $u_c(\theta, \theta, 0) = m + 2(v + a\theta) + a^2(1 - \theta)\theta$. First, if $\theta \in \{0, 1\}$, $\Delta(\theta) = m$. Second,

$$\frac{\partial \Delta(\theta)}{\partial \theta} = a^2\big(-1 + 2\theta + m\frac{a^2\theta(1 - \theta)}{1 - v - a\theta}\big),$$

which increases in v and m. Hence, for an m sufficiently small, $\Delta(\theta) < 0$ for intermediate values of θ. □

Supplementary Appendix of

"A Model of Succession and Policy Concerns"

Álvaro Delgado-Vega — *University of Chicago*

Benjamin Shaver — *University of Chicago*

July 19, 2024

Lemma 1 *If $p(\theta, e) = v + me + (a_0 + a_1 e)\theta$, $p(\theta, e)$ satisfies Assumption 1 for $a_0, v, m > 0$, and $a_1 \in [0, \frac{a_0 m}{v})$.*

$\Pr(k_l = H|\text{success and } e = 1) < \Pr(k_l = H|\text{success and } e = 1)$ when

$$\frac{(v + m + (a_0 + a_1))\theta}{v + m + (a_0 + a_1)\theta} < \frac{(v + a_0)\theta}{v + a_0\theta}.$$

The LHS is increasing in a_1, the RHS is constant in a_1, and the inequality holds with equality when $a_1 = \frac{a_0 m}{v}$.

$\Pr(k_l = H|\text{fail and } e = 1) < \Pr(k_l = H|\text{fail and } e = 0)$ when

$$\frac{(1 - v - m - (a_0 + a_1))\theta}{1 - v - m - (a_0 + a_1)\theta} < \frac{(1 - v - a_0)\theta}{1 - v - a_0\theta}.$$

The LHS is decreasing in a_1, the RHS is constant in a_1, and the inequality holds with equality when $a_1 = \frac{a_0 m}{v-1} < 0$. Hence, Assumption **??** is satisfied for any $a_1 < \frac{a_0 m}{v}$. □