

Abstract: We revisit the trade-off between keeping authority and granting decision-rights to an informed agent. We introduce transfers, allowing the agent to charge a fee for her services, but she may also offer the principal a side payment. In equilibrium, the principal's contracting decision maximizes the aggregate payoff. In particular, introducing transfers changes the contracting decision from centralization to delegation and improves efficiency if delegation maximizes the aggregate payoff but requires a side payment. We then introduce general delegation mechanisms. We first show that the agent, behaving ex ante like a social planner would do, restricts the discretion of her interim self in equilibrium. We then derive the optimal delegation set and show that centralization will occur with optimal delegation only if it is informative. Our results contribute to the debate over subsidiaries in multinational corporations, showing how transfers can induce the parties to act in the headquarters' interest.