

Abstract of a paper to be presented at the
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Integration, Delegation and Management in Industry Equilibrium

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Management is many things, among them resource allocation by authority, as Coase pointed out long ago. In a private ownership economy, the source of managerial authority is property rights, its purview confined by the boundaries of the firm. At the same time, managers who are competent to wield authority or to grant it through delegation are a scarce resource; thus, conditions in the managerial market influence the effects and determination of firm boundaries. This paper presents a model of how firm boundaries (modeled as vertical integration) and management by delegation are jointly determined in a competitive industry. Integration through asset sale grants authority to a top manager, who may choose to delegate decision back to his subordinates, or to retain control for himself, depending on the realization of a managerial comparative advantage parameter representing specialized knowledge or information. Productivity or industry price are key determinants of both the level of integration and the level of delegation: in a heterogeneous population of firms, delegation and integration may co-vary. When top managers are scarce, there is little integration and consequently lower aggregate productivity. Heterogeneity of integration structures is generic, even among ex-ante identical firms, and the degree of heterogeneity is non-monotonically dependent on managerial scarcity. With free entry into management, there is a possibility of too little integration and management at low levels of average productivity or demand, as in developing countries; at higher levels, there may be too many managers and too much integration.