

Firm Selection and Organizational Choice: Complex Patterns of Global Sourcing

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Surveys of Danish Firms

- ▶ Asks about sourcing choices for multiple activities.
- ▶ In 2007, 4,161 firms, for their Core Activities:

		Firm boundaries	
		VI	O
Location	Dom	89%	3%
	Intl	4%	4%

- ▶ Why is there variation? What can we learn from the variation about the efficiency of observed organizational choices?
- ▶ In these data, these choices are not mutually exclusive.

Connection to theory

- ▶ The Antràs and Helpman (2004) model produces sorting into one of four organizational choices.
- ▶ Production function with inputs from two parties. Contracts are incomplete. Fixed costs vary.
- ▶ Firm heterogeneity: productivity, and relative input factor intensity.
- ▶ A variety of sortings is possible, depending on parameters. Decisions reflect attempt to reduce underinvestment due to hold up concerns in the relationship.

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- ▶ A variety of sortings is possible, depending on parameters. Decisions reflect attempt to reduce underinvestment due to hold up concerns in the relationship.
- ▶ Here: can ask what must be true about the way inputs enter the production function, and relative fixed costs, for the tradeoffs in the AH model to explain variation in the data.
- ▶ If requirements are plausible, location decisions likely reflect inefficiencies arising from incomplete contracts as in AH.

Productivity heterogeneity

- ▶ Focus on core activities: Table 11a shows firms with high value added value per worker have selected into vertically-integrated international activities rather than arm's length.
- ▶ Consistent with AH model with high relative capital production intensity, and not-too-high relative fixed costs of integration.
- ▶ But, Table 12a show this association exists only for firms sourcing from the South (anywhere other than W.EU and US), not the North.
- ▶ Also, the productivity measure is value added per domestic in-house worker, not the organization as a whole, as in AH.

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- ▶ Could instead examine the interaction between productivity and capital intensity.
- ▶ Expect propensity to do in-house to increase with productivity only for high capital intensity firms (or industries).

Sourcing bundles

- ▶ In these data, are some very interesting firms that integrate and outsource both at home and internationally.
- ▶ What are the sources of complementarity between strategies? Various possibilities.
- ▶ In Du, Lu, and Tao (2009), bi-sourcing of the same input is (partly) a strategic decision to improve bargaining position with suppliers.
- ▶ Are there other economies of scope at the sourcing-location level that benefit larger productive firms?
 - ▶ Lower fixed costs of outsourcing input A if already producing input B in-house in same location?
 - ▶ Learning by doing? Easier to operate second subsidiary in location S1 if already have subsidiaries in S2.
 - ▶ Coordination benefits among integrated subsidiaries.
- ▶ Characterizing "Global Value Networks" could motivate new models of selection.