

The boundaries of the firm in a Grossman-Hart-Moore framework. Evidence from Italy

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This paper provides new evidence on the boundaries of the firm, as shaped by the ownership (make-or-buy) and location (domestic-or-foreign) decisions of sourcing. We draw on the Grossman-Hart-Moore framework to investigate the role of input characteristics, investment spillovers and firm productivity in sourcing decisions.

Our empirical analysis relies on original survey data of a stratified sample of Italian manufacturing firms, headquartered in Lombardy. Our probit, multinomial probit and conditional mixed process estimations suggest a number of robust regularities: some confirm so far unexplored theoretical predictions from the Grossman-Hart-Moore framework; others provide new insights on specific relationships on which the theory is silent.

As for ownership, we find that reliance on specific inputs and intangible inputs fosters integration over non-integration; firms acknowledging cross spillover effects are more likely to opt for joint-venture than non-integration. As for location, domestic sourcing prevails over foreign sourcing in presence of investment spillovers, whereas input characteristics play no role. Productivity is a major driver of the boundaries of the firm in that productive firms are more likely to source abroad than domestically and to opt for integration and joint-venture instead of non-integration. Our results contribute to the property rights theory of the firm and its recent developments.