

Input Procurement: Theory and Evidence

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In this paper, we study input procurement issues from both a theoretical and an empirical point of view. In a two-parties model with incomplete contracts, we analyse the relation between an input supplier and a final good producer and discuss the optimality of competing ownership regimes. In doing so, we widen the traditional Property Rights Theory of the firm dichotomy between integration and non-integration, and allow for joint control. According to our model, investment spillovers increase the likelihood of joint control over traditional regimes. For the purpose of the empirical analysis, we employ new proprietary firm-level survey data of a stratified sample of Italian enterprises. Probit and multinomial probit estimates confirm our theoretical predictions in that input procurement is a matter of investment spillovers. In particular, the higher the relevance of investment spillovers in the input supplier-final good producer relation, the more likely the choice of joint control over integration and/or non-integration. This result is robust to different measures, alternative specifications and robustness checks.