The Missing Middle Managers Labor Costs, Firm Structure, and Development

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This paper shows that large, multi-establishment business enterprises face a high cost of middle management in poor countries and that this cost inhibits the growth of the modern sector. We provide new empirical evidence using a database covering compensation for 300,000 middle managers working at modern firms in 146 countries. We estimate that the elasticity of real management costs with respect to real GDP per worker is 0.1. We quantify the importance of this finding using a calibrated appropriate technology model where firms choose whether to adopt the management-intensive modern business structure. Lower management costs in developing countries would increase the revenue share of the modern sector by 10-20 percentage points

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