The Missing Middle Managers:
Labor Costs, Firm Structure, and Development*†

Jonas Hjort
Columbia University
& CEPR & NBER

Hannes Malmberg
University of Minnesota

Todd Schoellman
Federal Reserve Bank
of Minneapolis

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Abstract

This paper argues that the cost of managers, business professionals, and administrators (MBAs) in poor countries is an important deterrent to the adoption of large, hierarchical, multi-establishment firm structures. We provide new empirical evidence drawing on a database from a compensation consulting firm that advises multinationals on pay at their local administrative support affiliates worldwide. The database includes annual total compensation for more than 170,000 country-year-firm-job observations. Our main empirical finding is that the level of compensation is in line with GDP per worker in rich countries but an order of magnitude higher in the poorest; the elasticity of compensation with respect to GDP per worker is only one-third. We quantify the importance of this finding using an appropriate technology model where firms in each country and industry choose between small and large firm structures. Large firms offer productivity gains but require the use of MBAs to coordinate and implement production. Reducing the relative cost of MBAs to the levels of rich countries would increase the adoption rate of modern technologies by a factor of 2 to 3.3.

*hjort@columbia.edu, malmberg@stanford.edu, todd.schoellman@gmail.com.

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