

# Preface

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*Whether firms indeed behave so as to maximize profits is a long standing issue in industrial economics, as testified by several classical contributions dating back to the late '50s and '60s, well before the game theory revolution that has generated the New Industrial Economics, now known as Theory of Industrial Organization. That early debate, now alas almost forgotten, discussed the possibility for firms to maximize the growth rate, the volume of sales, or revenues, instead of profits (see Baumol, 1958; Marris, 1953; Penrose, 1959; Williamson, 1966; and Solow, 1971). A parallel but completely independent stream of literature focused upon labour-managed firms (Ward, 1958; Vanek, 1977; Ireland and Law, 1982), or — almost equivalently — workers' enterprises (Sertel, 1982; Aoki, 1984), whose objective is the maximization of value added per worker, and/or profit sharing. Relatively later, the theory of strategic delegation has revived the interest for the idea that managerial firms may actually aim at maximizing a combination of profits and sales (Vickers, 1985) or profits and revenues (Fershtman and Judd, 1987).*

*After approximately two decades of globalization, the issue of defining firms' objectives has come back to the fore once again, strictly entangled with the companion issue of outsourcing vs vertical integration (see McLaren, 2000; Grossman and Helpman, 2002, inter alia). In a nutshell, the problem boils down to determining jointly the internal structure of the firm and its long-*

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*run investment projects in new products and technologies, in relation with the global market where specialized labour or capital inputs can be sought for outside the firm itself and even outside the country of residence of the firm. This clearly implies that globalization is not just a matter of free trade. It has expanded the set of possibilities made available to any given firm but it has also increased the competitive pressure to which the firm is exposed, along several dimensions.*

*The papers presented herewith revisit the theme of defining firms' objectives in the comparatively new perspective shaped by globalization. Far from pretending to be exhaustive, this collection of original studies aims at providing the reader with some new insights on the links between the internal structure of firms, their incentives, and their performance.*

*The first two papers deal with labour-managed (LM) firms. While Okuguchi and Szidarovszky investigate the existence of equilibrium in a Cournot oligopoly with LM firms using Brouwer's fixed point theorem, Ohnishi studies the possibility of using wage premia in LM markets.*

*In the third paper, Gianpaolo Rossini investigates the plausibility of price-setting behaviour in a model where the firms must choose between vertical integration and outsourcing under uncertainty. He examines two different vertical relationships, namely a non symmetric (imperfectly) competitive one and a cooperative one based on a bargaining process among vertical production stages (or firms). In the first, quantity setting is preferred by firms, because it eliminates uncertainty in expected terms. In the second, he shows that uncertainty entails an asymmetric distribution of gains along the vertical production chain.*

*The fourth paper deals with fair trade, which is, so to speak, a new entry in the current spectrum of strategies a firm could adopt. Here, Becchetti and Gianfreda show that a desirable side-effect generated by the introduction of socially responsible goods is that of inducing socially responsible imitation by traditional profit maximizing firms. As a consequence, there arises a consumer-driven market mechanism promoting equity.*

*The papers by Dragone and Cellini and Lambertini revisit*

*Vickers's (1985) model of strategic delegation to tackle, respectively, the issues of (i) horizontal mergers and collusion, and (ii) outsourcing. Dragone shows that, in a Cournot oligopoly, the presence of a managerial fringe may indeed affect the stability of collusion in outputs. The interesting policy implication of his analysis is that, choosing the appropriate size of the fringe, a regulator may affect the equilibrium outcome so as to enhance social welfare. Cellini and Lambertini analyse the make-or-buy decisions of firms in a mixed duopoly where one unit is a pure profit-seeker while the other has operated a strategic separation between ownership and control. The main finding is that that different equilibria may arise, depending on demand and cost parameters: if the technology employed for producing the intermediate input is too costly, then the internal organization of firms at equilibrium is mixed, implying a conflict between private and social preferences, as the latter would always prefer vertical integration to outsourcing.*

*The last three papers deal with the empirical side of the issue, that is, they focus on the measurement of firms' performance. Oropallo and Rossetti use micro-data drawn from Istat structural business statistics on Italian firms to evaluate the impact of several factors, such as investments, human capital, service inputs, age, and context variables, on profits and productivity.*

*Casaburi, Gattai and Minerva look at the empirical evidence about the link between firms' performance and their international status, using a sample of Italian enterprises. Their results can be summarized as follows: (i) firms that engage in the foreign production of final goods, in addition to export activities, are more productive than firms that only export abroad; (ii) firms that engage in final goods off-shoring are more productive than firms that engage in inputs off-shoring; and (iii) over the period 1998-2003, exporters' performance in Italy was not any better than non-exporters' one. The authors' overall appraisal of the analysis carried out in their paper is that the better performance characterising globally engaged firms can be mainly attributed to the selection driven by fixed costs associated to operating internationally. Breda, Cappariello and Zizza use input-output tables to estimate the import content of exports for several European countries, interpreting it as a measure of*

*internationalisation in recent years. They show that Italy experienced the weakest growth whereas Germany enjoyed the most sizeable rise, and argue that Italian firms might have felt a lower pressure to transform their organisation as a result of lagged effects of the Lira crisis in the first half of the '90s.*

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