

Hierarchy: The Economics of Managing

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ABSTRACT

In today's industrialized nations, a significant fraction of economic activity takes place in large firms, many of them with thousands or even hundreds of thousands of employees. Given the large size of these firms, and given the limitations on individuals' capacities for information-processing and decision-making, it is obvious that the labor of managing must be divided among many persons in the firm. In the U.S., more than a third of all employees may be working full-time in activities that are part of -- or in support of -- the management process. By the "economics of managing" I mean the consideration of the resources that go into the activities of managing, and the ways in which different organizations of managing do a better or worse job of economizing those resources and produce better or worse results. In these lectures I review some contributions of economic theory to the study of the economics of managing. Two themes are central. The first is *decentralization*, referring to the dispersion of information-processing and information among members of the firm, and the resulting loss of efficiency and control in the presence of conflicting goals and beliefs. The second theme is the question: What is the *economic* significance of *hierarchy* in the organization and management of large firms?

Key words: decentralization, firms, hierarchy, management, organization

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