Self-Employment within the Firm

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Abstract:
We study the internal organization of firms in developing countries and how it affects their productivity and optimal size. We collect detailed time use data for 1,000 manufacturing firms in urban Uganda and document limited within-firm labor specialization. Even in relatively large firms, entrepreneurs and their employees work on similar tasks. As such, firms resemble a collection of self-employed individuals who share a production location. To interpret the empirical evidence, we develop an equilibrium model of task assignment, firm size, and occupational choice. We find that barriers to labor specialization generate decreasing returns to scale at the firm level, which reduces the returns to entrepreneurial ability and keeps firms small in equilibrium. Given the internal organization of firms we document, benefits from alleviating any other frictions that constrain firm growth are muted.