# Endogenous Communication in Complex Organizations[*]

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## Abstract

We study the information flows that arise within an organization with local knowledge and payoff externalities. Our organization is modeled as a network game played by agents with asymmetric information. Before making decisions, agents can invest in pairwise communication. Both active communication (speaking) and passive communication (listening) are costly. Our main result is a close-form characterization of equilibrium communication intensities and decision functions for our class of network games. This result can be used to describe the determinants of pairwise communication, the overall influence of each agent, the ratio between active and passive communication, and the discrepancy between actual and efficient communication patterns. The analysis is also extended to organizations that contain teams of agents who share the same objective. Throughout the paper, we apply our results to two examples of organizations: a matrix-form firm and a network of professionals.