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Foreign-owned firms around the world: A comparative analysis of wages and employment at the micro-level ☆

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ABSTRACT

This paper provides the first microeconomic cross-country analysis of the effects of foreign ownership on wages, employment and worker turnover rates. Using firm-level and linked worker-firm data, we apply a standardised methodology for three developed (Germany, Portugal, UK) and two emerging economies (Brazil, Indonesia). We find that wage effects are larger in developing countries, and that for each country the largest effect on wages comes from workers who move from domestic to foreign firms. Employment growth after foreign takeover is concentrated in high-skill jobs. In contrast to widespread fears, there is no evidence that wage gains come at the expense of greater job insecurity; separation rates actually fall slightly after takeover. We conclude that the positive effect of foreign ownership on wages is not primarily driven by its impact on incumbent wages, but by its impact on the creation of high-wage jobs.
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1. Introduction

Multinational enterprises have become key drivers of the world economy. The share of FDI in world GDP has more than tripled since the 1980s. The share of FDI to and from non-OECD countries has also increased substantially, particularly since the 1990s. And in many developing countries FDI now represents the main source of external finance. Policy makers have generally welcomed these trends, emphasizing the potential benefits that FDI may bring to the host country. Since multinational enterprises (MNEs) are thought to have superior management or production techniques (or some other sort of "firm-specific asset") to be able to effectively compete with local firms in foreign markets, this operational advantage may also benefit workers who are employed in the foreign affiliates of MNEs, or may spillover to the wider economy in

☆ The data used in this paper are confidential but not exclusive, and may be used for non-commercial research by others, including replication of the results in this paper. The data for Germany are available by visiting the research data centre of the German Federal Employment Agency at the IAB, Nürnberg, Germany. The data for the UK can be accessed via the Secure Data Service at the UK Data Archive, University of Essex, UK. The data for Portugal may be accessed within the facilities of several research centres located in Portugal, including the Faculty of Economics at the University of Porto, and under specific rules agreed with the Statistics department of the Ministry of the Economy and Employment. The data for Brazil may be accessed by contacting the Ministry of Labour and Employment. The data for Indonesia can be purchased from Badan Pusat Statistik (BPS), Indonesia. The Stata programs used to estimate all the results in the paper are available from the authors on request. This article is a revised version of IZA working paper 5259 (Hijzen et al., 2010).

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which the foreign affiliate operates. However, the increased importance of MNEs in the world economy and in emerging markets in particular has also raised social concerns.

The way one evaluates the social impact of MNEs depends crucially on the normative standard that is used (OECD, 2008). Based on a home-country standard — which involves comparing working conditions in the host country with those in the home country — MNEs that have exploited international differences in labour costs by relocating some of their activities abroad have sometimes been accused of practising unfair competition. It is argued that foreign workers are not given their 'just' reward and, as a result, workers in the home country have to withstand unfair competition based on excessively low pay. While such an argument may have a place in the debate on the social impact of outward investment at home, it is potentially counterproductive in the context of the debate on the social impact of inward investment in the host country. Alternatively, one may evaluate the social behaviour of MNEs by comparing working conditions against a set of universal standards such as those enshrined in the ILO's core labour standards. Since in many low-income countries labour standards are not effectively enforced, human right activists have demanded that accountability mechanisms be put in place to ensure that core labour standards are respected throughout the operations of MNEs. While this is an interesting issue to look at, systematic information on compliance levels of MNEs to core labour standards is lacking.

This paper assesses the way MNEs treat their workers in their foreign operations using a local standard that involves comparing working conditions in the foreign affiliates of MNEs with those in comparable domestic firms. The difference may be interpreted as the social impact of MNEs in the host country. This allows one to simultaneously analyse the potential positive benefits emphasised by policy makers as well as social concerns over the tendency of MNEs to use their bargaining power to force workers into sub-standard working conditions. Moreover, Porter and Kramer (2006) argue that the actual social impact also represents the appropriate benchmark to evaluate the corporate social responsibility of MNEs rather than, more narrowly, the extent to which corporate reputations for responsible business conduct are harnessed and stakeholder expectations satisfied.[1] This notion is also reflected in major multilateral initiatives to promote responsible business conduct such as the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (ILO, 2000) and the OECD's Guidelines for Multinational Enterprises (OECD, 2011). They both recommend MNEs to observe standards of employment no worse than those observed by similar employers in the host country. This paper thus seeks to address the question whether it is better to work for a multinational or a national firm. The paper does not consider the indirect social impact that MNEs may have on their environment, although this may be important as well.[2]

A large literature already exists that analyses differences in pay between foreign and domestic firms, so-called 'foreign wage premia'. The literature has largely focused on differences between foreign and domestic firms rather than multinational and national firms as it is typically not possible to identify domestic MNEs with the available data. The same approach will be used in the present paper. Most of the previous evidence is based on firm-level data. Until recently, there was a consensus that foreign firms pay higher wages than their domestic counterparts and that foreign wage premia tend to be higher in less developed countries (e.g. Girma and Görg, 2007; Lipsey and Sjöholm, 2006; Moran, 2006). However, with the increasing availability of linked employer–employee data (LEED) this consensus has been challenged (e.g. Martins, 2004; Heyman et al., 2007; Andrews et al., 2010). These authors all find that after controlling for worker and firm characteristics, wage effects become much smaller, and in some cases disappear altogether or even become negative. This seems to be because foreign-owned firms select on worker quality: workers in foreign-owned firms would have earned more even if they had worked for domestically-owned firms.

However, the implications of these recent studies for the conventional wisdom are not well understood. In part, this is because the results are qualitatively mixed. Why do some studies find small positive effects, and other insignificant or even negative effects? Does this reflect differences in the econometric methodology (and particularly the use of different controls), differences in country characteristics or differences in the nature of FDI? Another reason why the implications are difficult to gauge is that these recent studies are all limited to European countries, while the effects are generally believed to be much more important in developing countries (e.g. Moran, 2006). As a result, it is an open question what the effect of controlling for firm and worker selection would be for the estimation of foreign wage premia in developing countries.

This paper analyses the role of foreign ownership for wages, worker turnover and employment by focusing on changes in ownership status as a result of cross-border acquisitions or worker movements. In order to overcome the problem of selection bias that is associated with the non-random nature of firm acquisitions and worker movements the study makes use of propensity score matching in combination with difference-in-differences methods.[3] In doing so, the paper makes three key contributions. First, we replicate the consensus in the empirical literature by applying a standardised methodology to firm-level data for three developed (Germany, Portugal and the UK) and two emerging economies (Brazil

[1] According to Porter and Kramer (2006, 2011) Corporate Social Responsibility (CSR) involves maximising 'shared value', i.e. benefits that accrue to both business and society and, in the present context, outcomes that raise both labour practices and firm profitability. Shared value may come about not just through the implementation of cost-increasing CSR policies that lead to higher product prices (the "demand-side" of CSR), but also through the integration of CSR into management strategies that raise both labour practices and long-term productivity (the "supply-side" of CSR). The extension of CSR to the supply-side expands the scope for CSR beyond the "willingness to pay" by consumers and investors for better labour practices. However, it also makes it harder to distinguish the impact of CSR from the social impact of day-to-day business.

[2] See Chapter 5 of OECD (2008) for a recent overview.

[3] This method will yield estimates of causal effects if the unobservable determinants of firm acquisitions or worker mobility are fixed over time.

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