Language Barriers in Multinationals and Knowledge Transfers*

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Abstract

A distinctive feature of MNCs is a three-tier organizational structure: foreign managers (FMs) supervise domestic managers (DMs) who supervise production workers. Language barriers between FMs and DMs could impede transfers of management knowledge. We develop a model in which DMs learn general management by communicating with FMs, but communication effort is non-contractible. These conditions generate sub-optimal communication within the MNC. If communication is complementary with language skills, the planner could raise welfare by subsidizing foreign language acquisition. We experimentally assess the validity of the general skills and the complementarity assumptions in Myanmar, a setting where FMs and DMs communicate in English despite DMs' low English proficiency. The first experiment examines the general skills assumption by hiring human-resource managers at domestic firms to rate hypothetical job candidates. They value candidates with both higher English proficiency and MNC experience, a premium is driven, in part, by the frequency of interactions with FMs. The second experiment examines the complementarity assumption by providing English training to a random sample of DMs working at MNCs. At endline, treated DMs have higher English proficiency, communicate more frequently with their FMs, are more involved in firm management, and perform better in simulated management tasks. The findings thus indicate that organizational barriers within MNCs can lead to an under-investment in English relative to the social optimum.

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