Language Barriers in MNCs and Knowledge Transfers*

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Abstract

Many countries routinely offer subsidies to attract MNCs, hoping to generate positive spillovers. A distinctive feature of MNC affiliates' organizational structure is a three-tier hierarchy: foreign managers (FMs) supervise domestic middle managers (DMs) who supervise domestic production workers. Language barriers between FMs and DMs could impede transfers of management knowledge and reduce beneficial spillovers from foreign investment. We develop a model in which DMs learn management skills by communicating with FMs. Communication effort and, therefore, the transfer of management knowledge, is non-contractible and thus potentially under provided. If (A) management knowledge acquired through communication is a general skill, the social planner should intervene to reduce communication frictions between FMs and DMs. Furthermore, if (B) communication is complementary with language skills, subsidizing foreign language acquisition can increase social welfare. We experimentally test the validity of conditions (A) and (B) among MNCs operating in Myanmar, a context in which communication between FMs and DMs occurs in English despite DMs' low English proficiency. The first experiment examines assumption (A) by hiring human-resource managers at domestic firms to rate hypothetical job candidates with randomly different characteristics. Domestic employers value candidates with both higher English proficiency and MNC experience, and this is driven, in part, by a premium for frequent interactions with FMs. The second experiment examines (B) 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 empirical results therefore support the view that there is an under-investment in English knowledge relative to the social optimum.

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