Language Barriers in MNCs and Knowledge Transfers*

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Abstract

A distinctive feature of foreign affiliates of MNCs is that they are led by foreign managers (FMs) who supervise domestic middle managers (DMs) who supervise domestic production workers (PWs). Language differences between FMs and DMs increase the cost of communication, might hamper knowledge transfers to DMs and limit the beneficial impact of FDI for the host country. We develop a model that clarifies under which circumstances a social planner should intervene to reduce the communication barrier between FMs and DMs. This occurs when: (i) DMs learn management from FMs; (ii) communication is costly to FMs and non-contractible; and, (iii) knowledge gained by DMs from FMs is valued by domestic firms. We experimentally test the validity of these assumptions in a sample of MNCs operating in Myanmar, a context in which communication between FMs and DMs occurs in English and yet the typical DM possesses low English proficiency. The first experiment provides 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 involvement in firm management, and perform better in simulated management tasks. Treated DMs also report higher WTP for additional meetings with FMs which supports the assumption that communication within firms is non-contractable. The second experiment recruits human-resource managers at domestic firms and asks them to rate hypothetical job candidates who randomly differ in their characteristics. Employers particularly value candidates with both higher English proficiency and MNC experience, and this is driven, in part, by a premium for frequent interactions with FMs. Overall, the evidence suggests an under-investment in language relative to the social optimum.

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