Expatriate Managers and Firm Performance

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Motivation

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- Some firms produce vastly more output per worker than others.
    - technology
    - organization

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  - technology
  - organization
- Two interventions know to improve firm performance:
  1. foreign investment
  2. management training

Research question

Do foreign managers improve firm performance?

Data

Data

- ▶ Hungarian Manager Database, 1992–2016: names and addresses of all corporations and their executives.
- ▶ Analysis sample: foreign owned firms employing 20 people or more.
- ▶ Foreign manager: firm representative with a non-Hungarian name
  - ▶ e.g. Eva Bauer v Bauer Éva

CEO succession

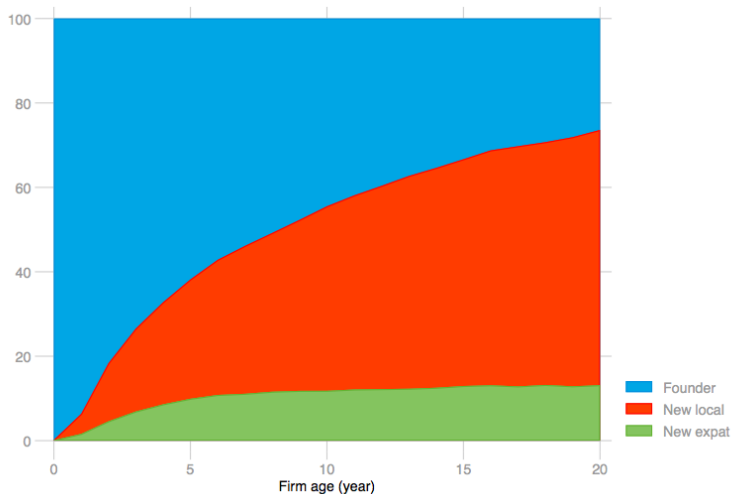Göngyi   Gábor   **Gisele**   Gergely
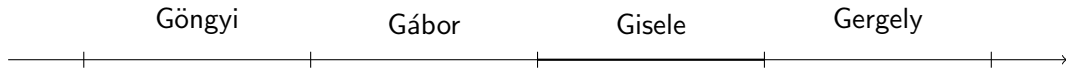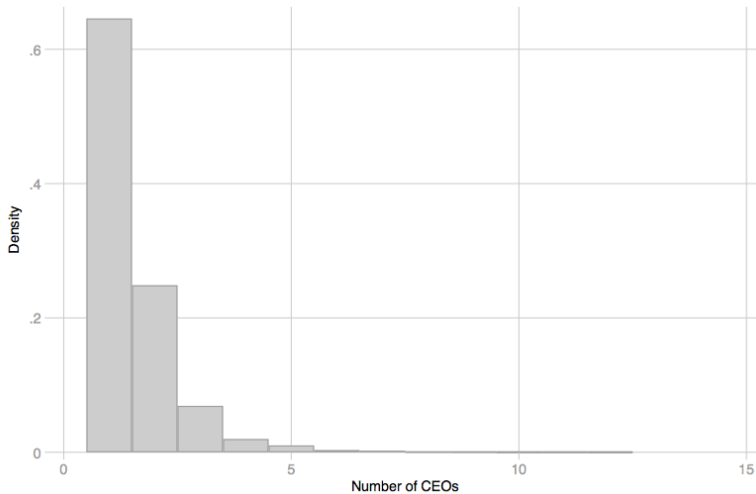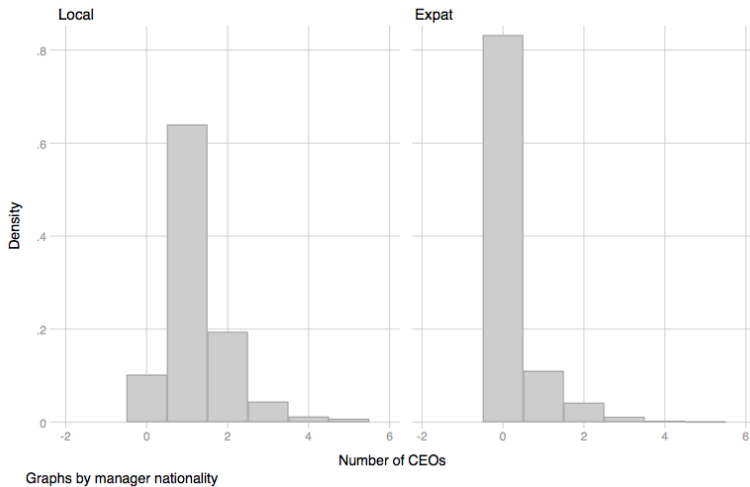
Descriptives

Local and expat managers over time
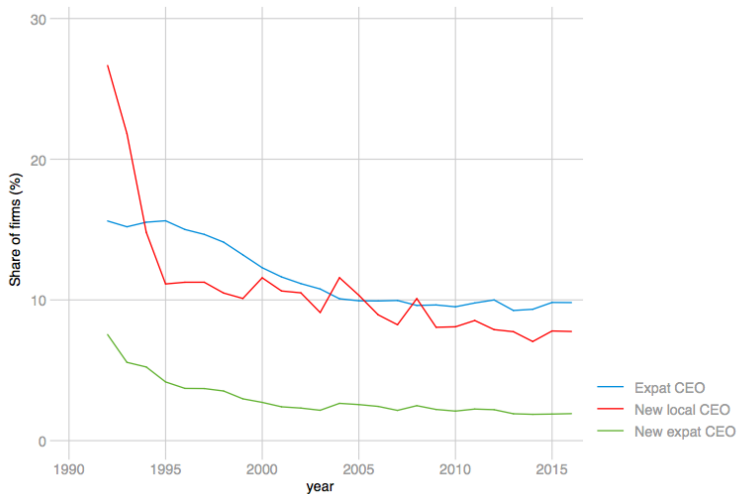
Founder CEOs are slowly replaced

Firms sometimes have multiple CEOs

80 percent of firms have no expat CEO

Graphs by manager nationality

Expat CEOs leave somewhat earlier
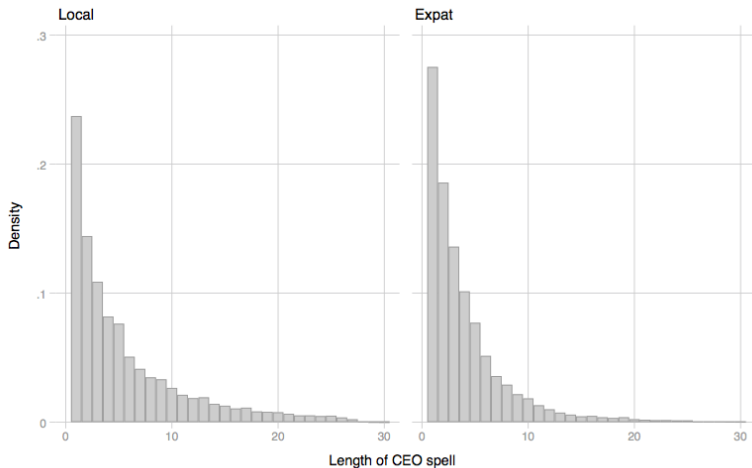
Graphs by manager nationality

Research design

Manager-level event study
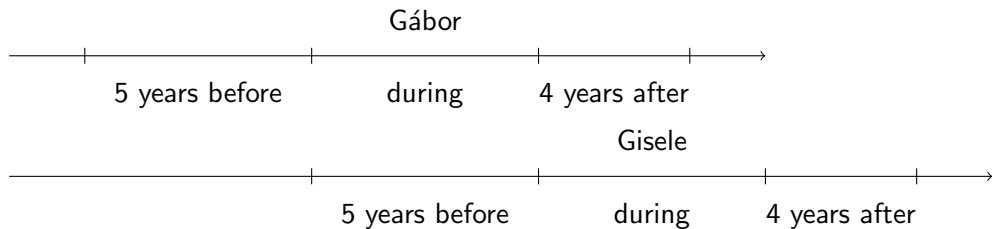
Estimating equation

$T_{im} \subset [1992, 2016]$: tenure of CEO m at firm i
$I()$: indicator function
X_m: expat dummy

$$Y_{imt} = \beta_1 I(t \in T_{im}) + \beta_2 I(t > T_{im})$$
$$+ \gamma_1 X_m I(t \in T_{im}) + \gamma_2 X_m I(t > T_{im})$$
$$+ f(\mathsf{age}_{it}) + \mu_{im} + \nu_{st} + \varepsilon_{imt} \quad (1)$$

Mechanism

Specific knowledge

Technology transfer

Reorganization
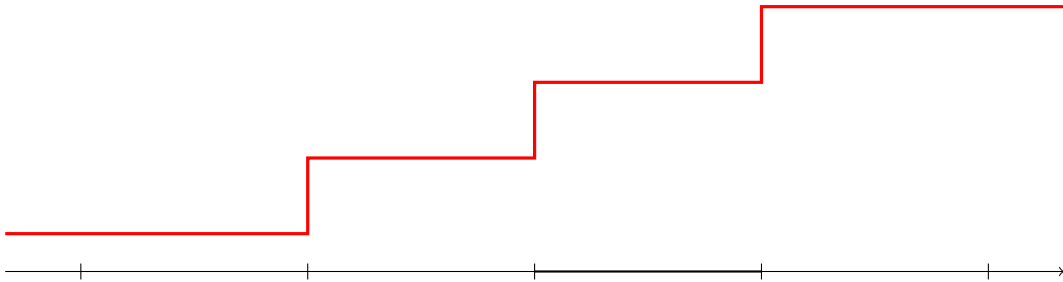
Estimates

Foreign firms are better in every respect (OLS estimates)

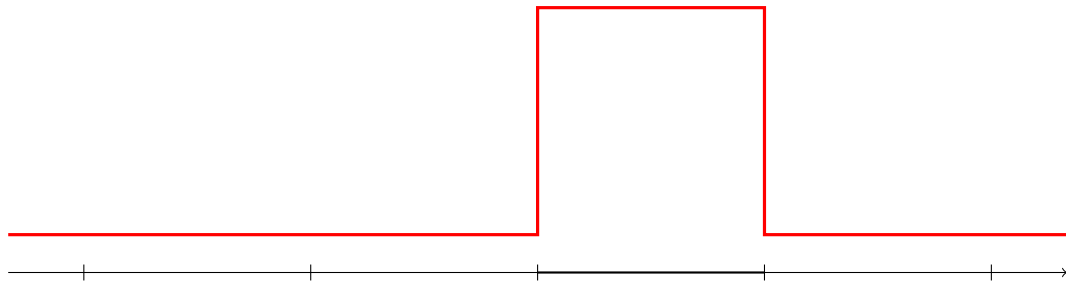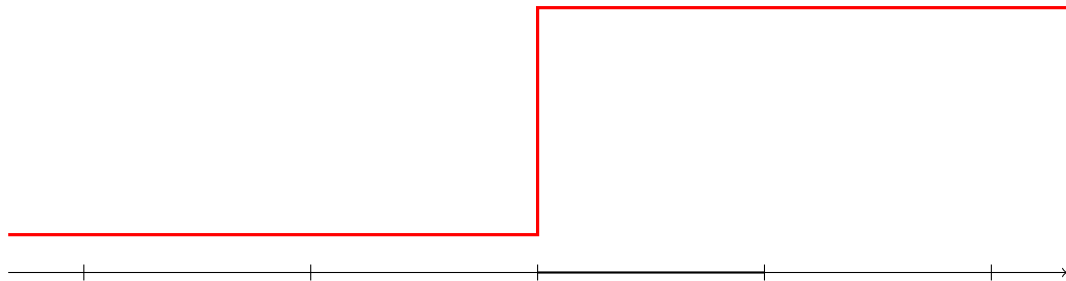| | (1) | (2) | (3) | (4) |
	lnL	lnKL	lnQL	exporter
Foreign owner (dummy)	0.399***	0.537***	0.655***	0.332***
	(0.020)	(0.032)	(0.024)	(0.008)
Expat manager (dummy)	-0.000	0.110***	-0.088***	0.060***
	(0.024)	(0.038)	(0.027)	(0.008)
R^2	0.072	0.156	0.210	0.204
Number of observations	322,194	287,853	322,194	322,194

Notes: All specifications control for industry-year fixed effects. Standard errors, clustered by firm, are reported in parantheses. Coefficients significantly different from zero at 1, 5 and 10 percent are marked by ***, ** and *, respectively.

Foreign takeover is associated with higher capital intensity, productivity and exporting (firm FE estimates)

	(1) lnL	(2) lnKL	(3) lnQL	(4) exporter
Foreign owner (dummy)	0.001	0.108**	0.071***	0.028**
	(0.032)	(0.047)	(0.022)	(0.012)
Expat manager (dummy)	-0.038***	0.050***	-0.007	0.016***
	(0.012)	(0.014)	(0.009)	(0.004)
R^2	0.122	0.196	0.278	0.049
Number of observations	322,194	287,853	322,194	322,194

Notes: All specifications control for industry-year and firm fixed effects. Standard errors, clustered by firm, are reported in parantheses. Coefficients significantly different from zero at 1, 5 and 10 percent are marked by ***, ** and *, respectively.

Foreign takeover is associated with higher capital intensity, productivity and exporting (firm FE estimates on acquisition sample only)

|	(1) lnL	(2) lnKL	(3) lnQL	(4) exporter
Foreign owner (dummy)	0.038	-0.024	0.056*	0.018
	(0.041)	(0.057)	(0.029)	(0.014)
Expat manager (dummy)	0.047	0.023	0.034	0.035***
	(0.031)	(0.032)	(0.021)	(0.009)
R^2	0.115	0.227	0.276	0.054
Number of observations	238,775	211,868	238,775	238,775

Notes: All specifications control for industry-year and firm fixed effects. Standard errors, clustered by firm, are reported in parantheses. Coefficients significantly different from zero at 1, 5 and 10 percent are marked by ***, ** and *, respectively.
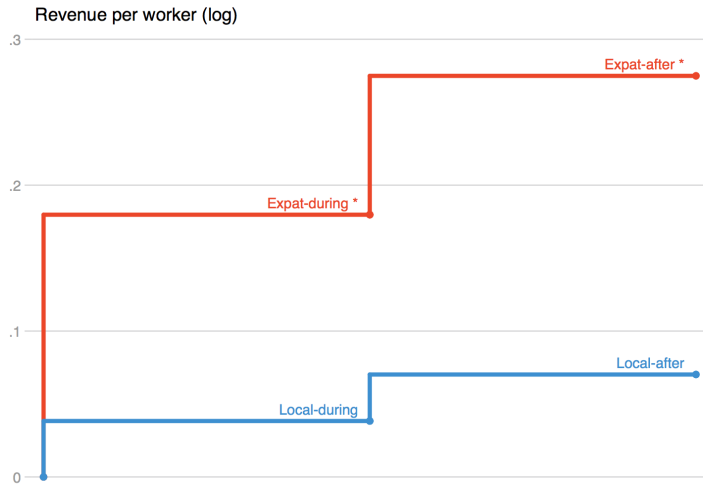
Manager-level estimates on acquisitions sample

	(1) lnL	(2) lnKL	(3) lnQL	(4) exporter
Foreign owner (dummy)	0.050	-0.003	0.066**	0.022*
	(0.038)	(0.051)	(0.026)	(0.013)
During manager tenure (dummy)	-0.026**	-0.006	0.038***	-0.005
	(0.011)	(0.013)	(0.008)	(0.003)
After manager tenure (dummy)	-0.183***	-0.022	0.070***	-0.021***
	(0.020)	(0.023)	(0.014)	(0.006)
During expat manager (dummy)	-0.035	-0.053	0.141***	0.033**
	(0.042)	(0.050)	(0.029)	(0.013)
After expat manager (dummy)	0.025	-0.173***	0.205***	0.038**
	(0.056)	(0.067)	(0.038)	(0.018)
R^2	0.112	0.192	0.228	0.050
Number of observations	368,105	329,669	368,105	368,105

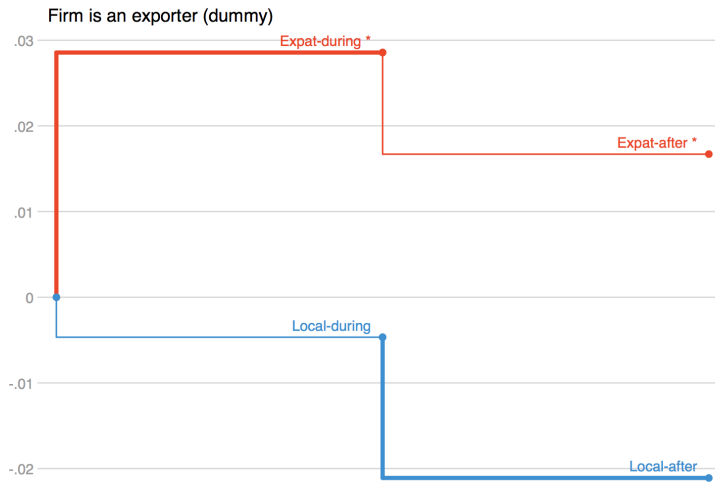Notes: All specifications control for industry-year, firm age and manager spell fixed effects.

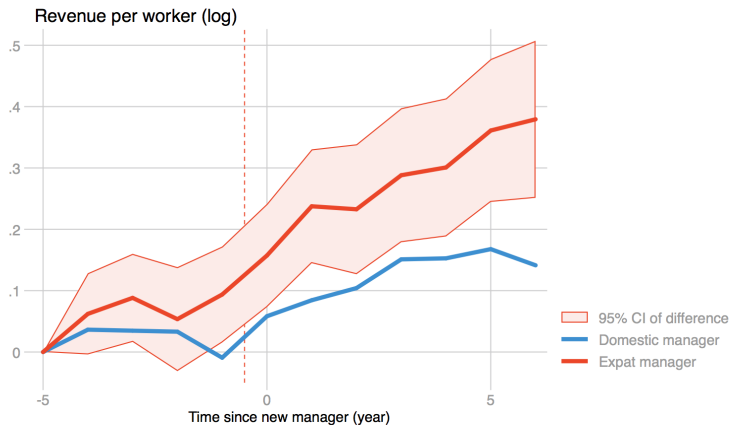# Local and expat managers reduce employment by same amount

Employment (log)

0

Local-during

-.05   Expat-during

-.1

-.15   Expat-after

Local-after

-.2
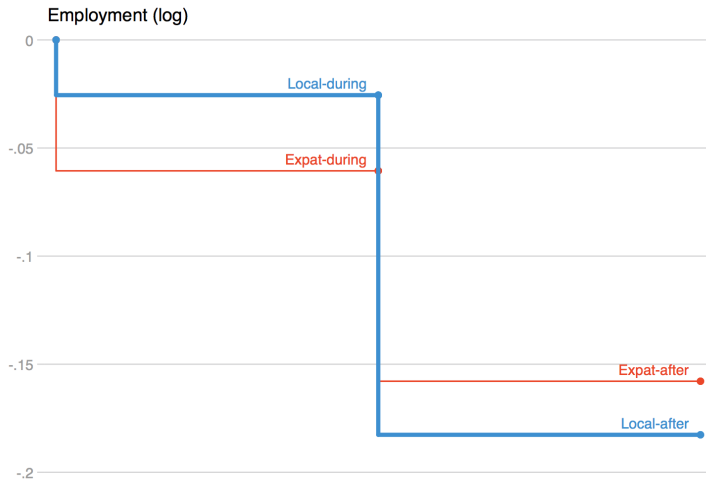
Expat managers improve revenue per worker by 15–25 percent

Revenue per worker (log)

.3

.2

.1

0

Expat-after *

Expat-during *

Local-after

Local-during

Expat managers increases probability of exporting by 3pp

Firm is an exporter (dummy)

Expat managers have persistent effect on revenue per worker

Exporting firms are more likely taken over by an expat

Firm is an exporter (dummy)

Time since new manager (year)
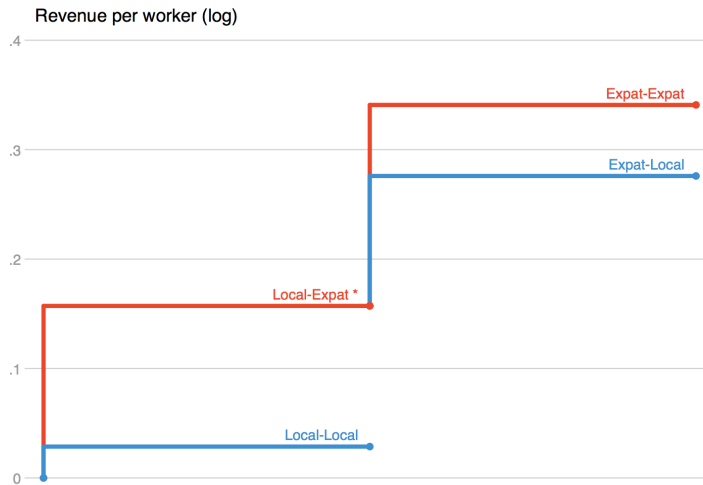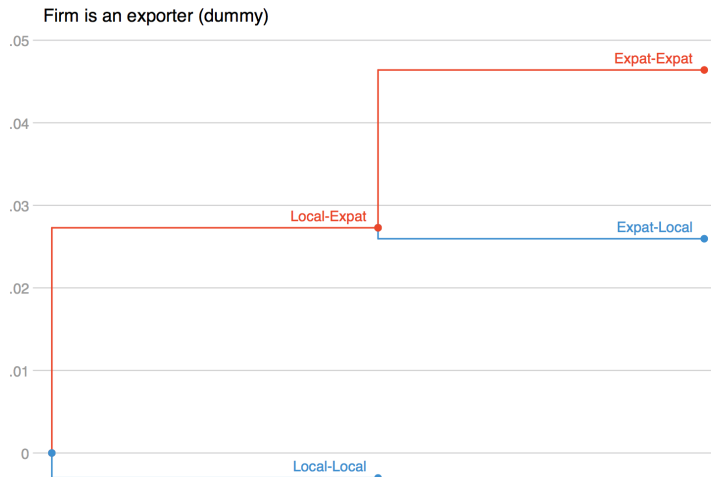
95% CI of difference
Domestic manager
Expat manager

23
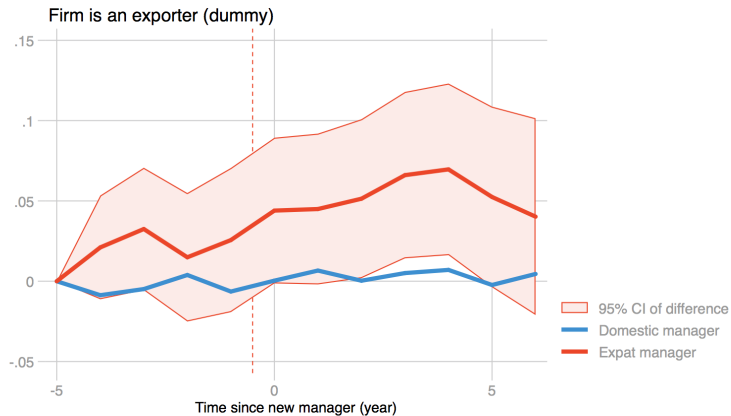
Estimates from manager switches

All reorganization results in loss of employment

Productivity effect of expats remains after they leave

Revenue per worker (log)

Expat-Expat

Expat-Local

Local-Expat *

Local-Local

Exporting effect of expats remains after they leave

Firm is an exporter (dummy)

Conclusions

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▶ Firms with expat managers improve output per worker and enter export markets.

▶ Patterns are consistent with a "technology transfer" interpretation.