

# 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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- ▶ Some firms produce vastly more output per worker than others.
  - ▶ technology
  - ▶ organization
- ▶ Two interventions known to improve firm performance:
  1. foreign investment
  2. management training

## Research question

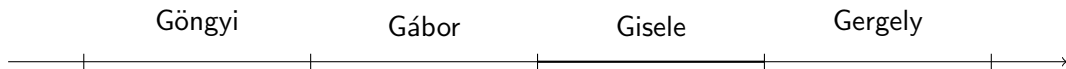
Do foreign managers improve firm performance?

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

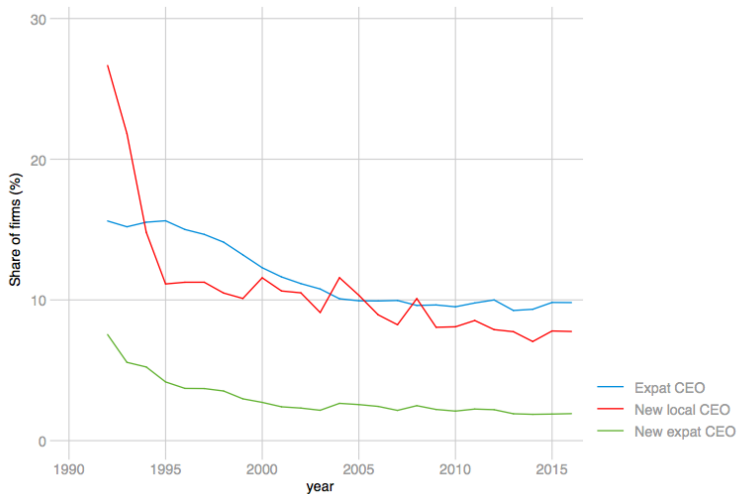
## CEO succession



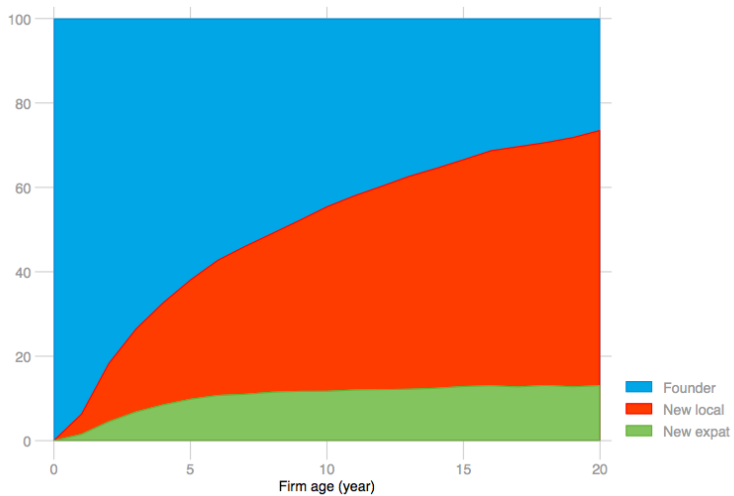


## Descriptives

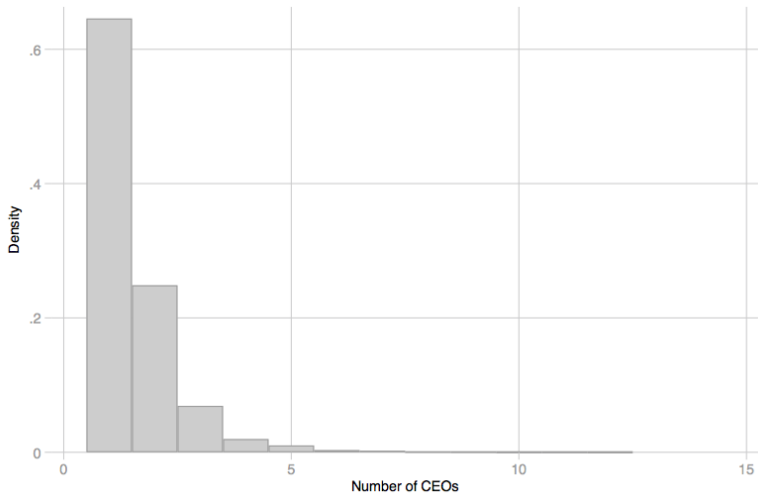
## Local and expat managers over time



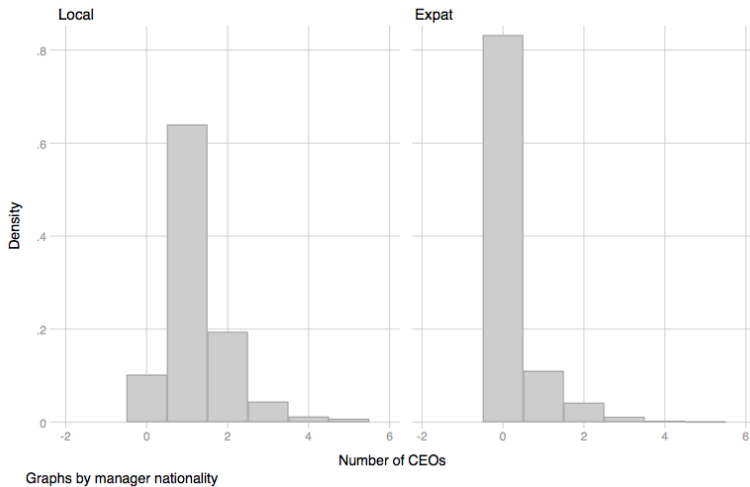
## Founder CEOs are slowly replaced



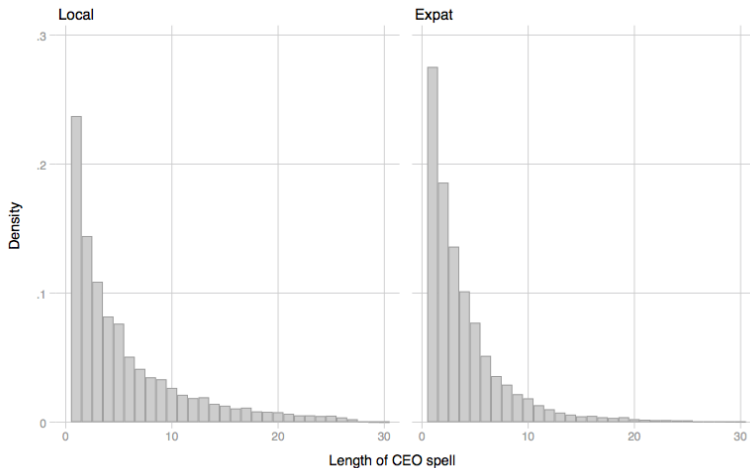
## Firms sometimes have multiple CEOs



## 80 percent of firms have no expat CEO



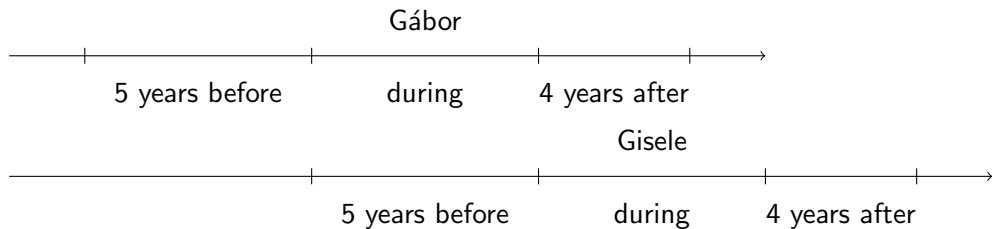
## Expat CEOs leave somewhat earlier



Graphs by manager nationality

## Research design

## Manager-level event study





## Estimating equation

$T_{im} \subset [1992, 2016]$ : tenure of CEO  $m$  at firm  $i$

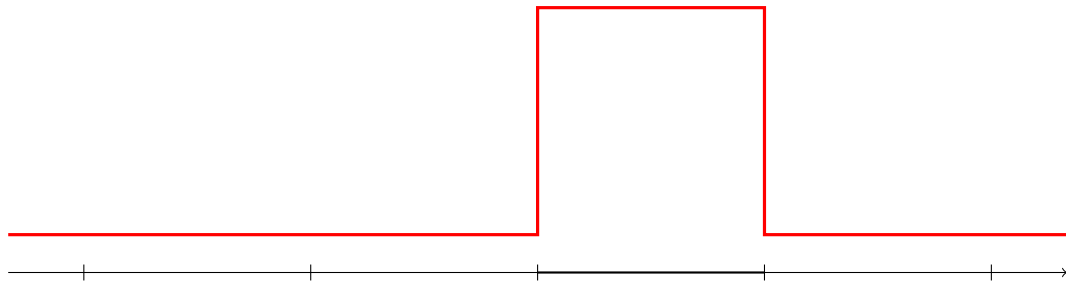
$I()$ : indicator function

$X_m$ : expat dummy

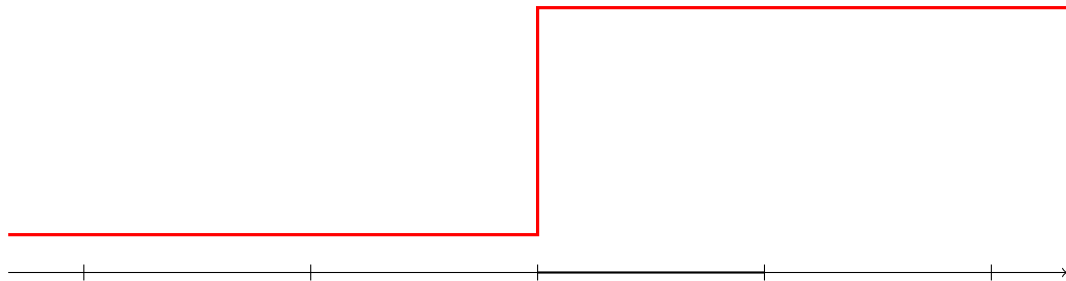
$$\begin{aligned} Y_{imt} = & \beta_1 I(t \in T_{im}) + \beta_2 I(t > T_{im}) \\ & + \gamma_1 X_m I(t \in T_{im}) + \gamma_2 X_m I(t > T_{im}) \\ & + f(\text{age}_{it}) + \mu_{im} + \nu_{st} + \varepsilon_{imt} \quad (1) \end{aligned}$$

## Mechanism

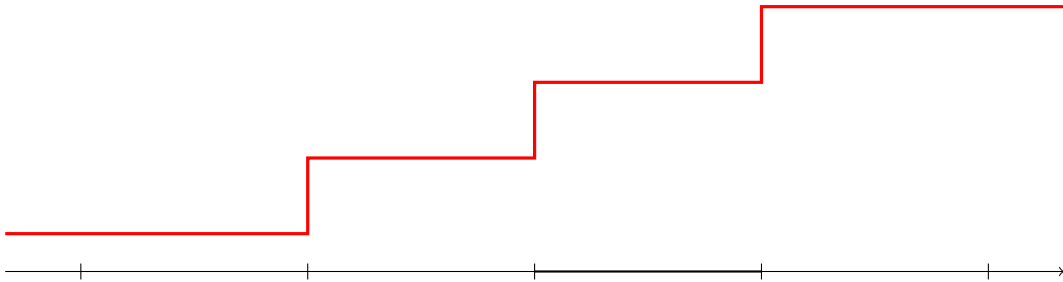
## Specific knowledge



## Technology transfer



# Reorganization



# Estimates

## Foreign firms are better in every respect (OLS estimates)

|                        | (1)<br>lnL          | (2)<br>lnKL         | (3)<br>lnQL          | (4)<br>exporter     |
|------------------------|---------------------|---------------------|----------------------|---------------------|
| Foreign owner (dummy)  | 0.399***<br>(0.020) | 0.537***<br>(0.032) | 0.655***<br>(0.024)  | 0.332***<br>(0.008) |
| Expat manager (dummy)  | -0.000<br>(0.024)   | 0.110***<br>(0.038) | -0.088***<br>(0.027) | 0.060***<br>(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)<br>lnL           | (2)<br>lnKL         | (3)<br>lnQL         | (4)<br>exporter     |
|------------------------|----------------------|---------------------|---------------------|---------------------|
| Foreign owner (dummy)  | 0.001<br>(0.032)     | 0.108**<br>(0.047)  | 0.071***<br>(0.022) | 0.028**<br>(0.012)  |
| Expat manager (dummy)  | -0.038***<br>(0.012) | 0.050***<br>(0.014) | -0.007<br>(0.009)   | 0.016***<br>(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)<br>lnL       | (2)<br>lnKL       | (3)<br>lnQL       | (4)<br>exporter     |
|------------------------|------------------|-------------------|-------------------|---------------------|
| Foreign owner (dummy)  | 0.038<br>(0.041) | -0.024<br>(0.057) | 0.056*<br>(0.029) | 0.018<br>(0.014)    |
| Expat manager (dummy)  | 0.047<br>(0.031) | 0.023<br>(0.032)  | 0.034<br>(0.021)  | 0.035***<br>(0.009) |
| $R^2$                  | 0.115            | 0.227             | 0.276             | 0.054               |
| Number of observations | 238,775          | 211,868           | 238,775           | 238,775             |

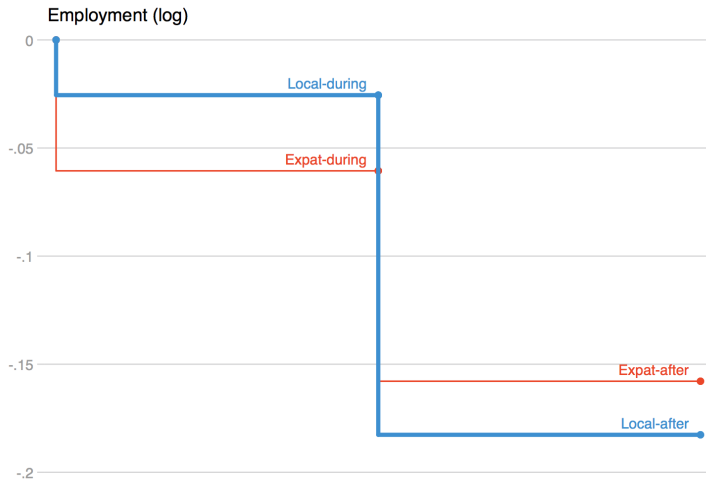
Notes: All specifications control for industry-year and firm fixed effects. Standard errors, clustered by firm, are reported in parantheses. Coefficients significantly different from zero at 1, 5 and 10 percent are marked by \*\*\*, \*\* and \*, respectively.

## Manager-level estimates on acquisitions sample

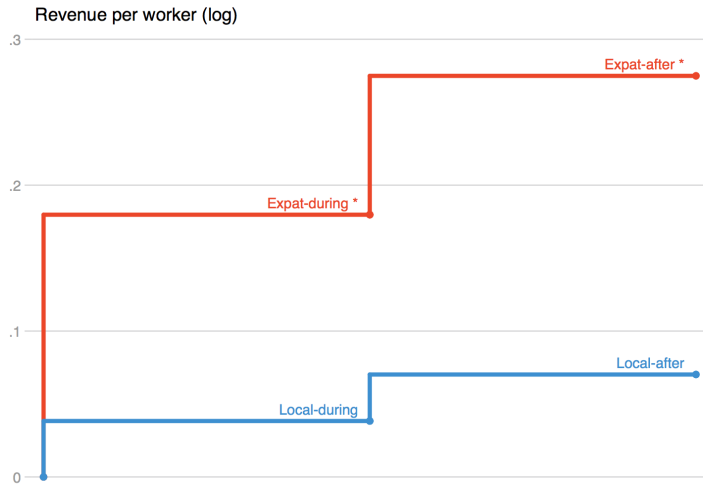
|                               | (1)<br>lnL           | (2)<br>lnKL          | (3)<br>lnQL         | (4)<br>exporter      |
|-------------------------------|----------------------|----------------------|---------------------|----------------------|
| Foreign owner (dummy)         | 0.050<br>(0.038)     | -0.003<br>(0.051)    | 0.066**<br>(0.026)  | 0.022*<br>(0.013)    |
| During manager tenure (dummy) | -0.026**<br>(0.011)  | -0.006<br>(0.013)    | 0.038***<br>(0.008) | -0.005<br>(0.003)    |
| After manager tenure (dummy)  | -0.183***<br>(0.020) | -0.022<br>(0.023)    | 0.070***<br>(0.014) | -0.021***<br>(0.006) |
| During expat manager (dummy)  | -0.035<br>(0.042)    | -0.053<br>(0.050)    | 0.141***<br>(0.029) | 0.033**<br>(0.013)   |
| After expat manager (dummy)   | 0.025<br>(0.056)     | -0.173***<br>(0.067) | 0.205***<br>(0.038) | 0.038**<br>(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.

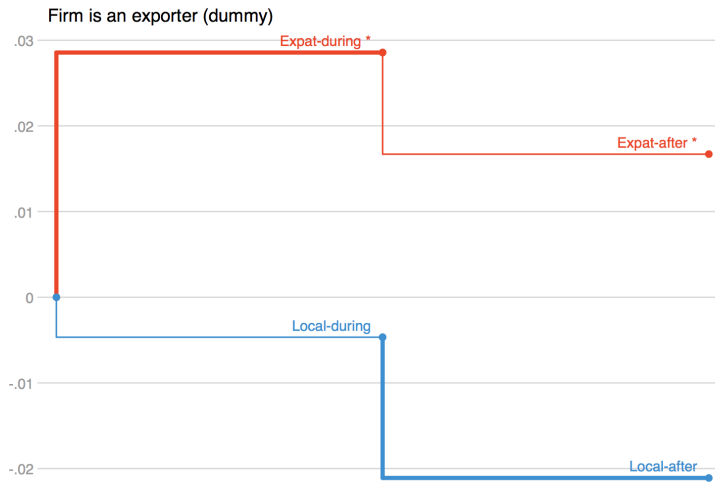
# Local and expat managers reduce employment by same amount



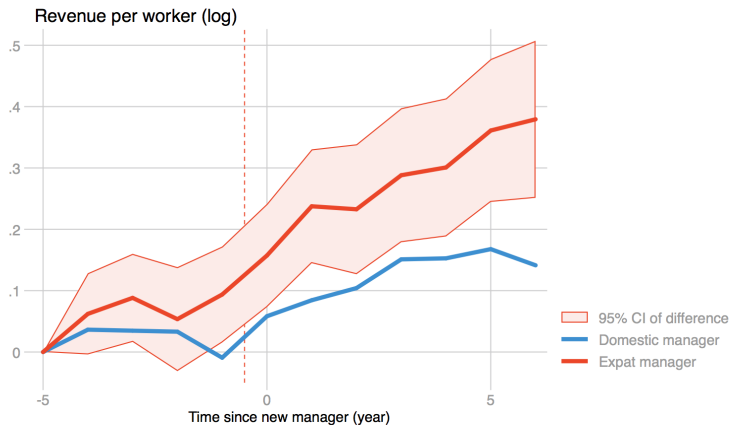
# Expatriate managers improve revenue per worker by 15–25 percent



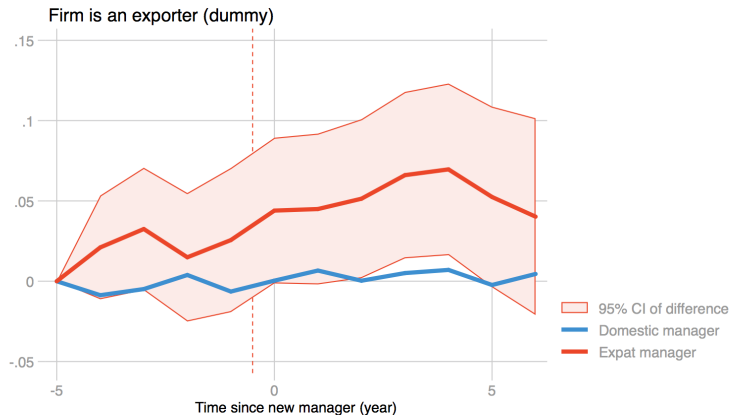
## Expat managers increases probability of exporting by 3pp



# Expat managers have persistent effect on revenue per worker



# Exporting firms are more likely taken over by an expat



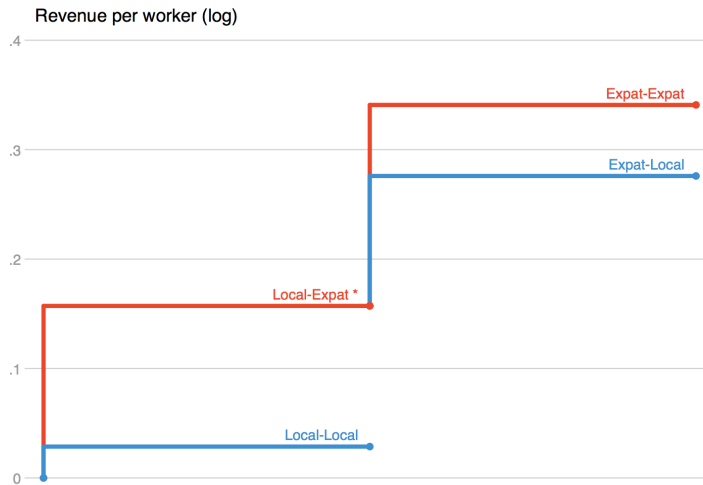
Estimates from manager switches



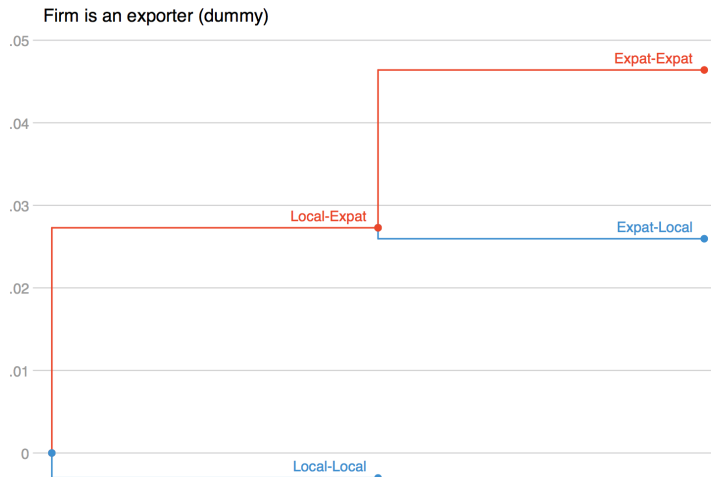
# All reorganization results in loss of employment



# Productivity effect of expats remains after they leave



# Exporting effect of expats remains after they leave



## 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.