

Foreign Firms and Foreign Managers

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Motivation

Motivation

Why and how do firms produce abroad?

1. What are the boundaries of (global) firms?
2. Foreign owned firms perform better than domestic firms
3. Managers matter

What are the boundaries of (global) firms?

arm's length \longrightarrow relational \longrightarrow acquisition \longrightarrow management

This paper

- ▶ Compile new data on which firm is run by which manager: Hungary, 1980–2018.
- ▶ Measure different degrees of foreign control:
 1. acquisition
 2. replace CEO
 3. hire expat CEO
- ▶ Results:
 - ▶ Exporters and low-productivity firms become more tightly controlled.
 - ▶ Firms with high immaterial capital receive local managers.
 - ▶ Foreign controlled firms become more productive and more likely to export.

Data

Data

Hungarian Manager Database

- ▶ coverage: universe of corporations, 1980–2018
- ▶ CEO: highest officer of corporation as specified in corporate law.
- ▶ information: name, mother's name, address, tenure at firm
- ▶ 1 million firms, 2 million CEOs, 5 million job spells

Balance sheet data

- ▶ coverage: universe of double entry firms, 1980–2018
- ▶ information: sales, exports, employment, equipment, immaterials etc.

Names

- ▶ We use manager names to infer
 1. CEO change
 2. nationality
 3. gender (not used today)
- ▶ Foreign manager: firm representative with a non-Hungarian first name
- ▶ e.g. Eva Bauer v Bauer Éva
- ▶ but: George Soros v Soros György
- ▶ Allow for misspelling, omitted middle name, missing data (jr, dr)

Sample

Exclude:

employing less than 20 people

financial sector

domestic firms with expat CEO

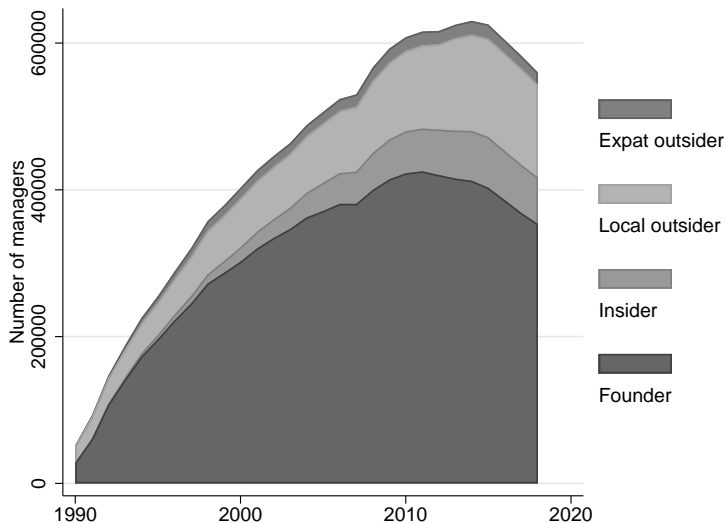
greenfield FDI

firms with more than 15 CEOs

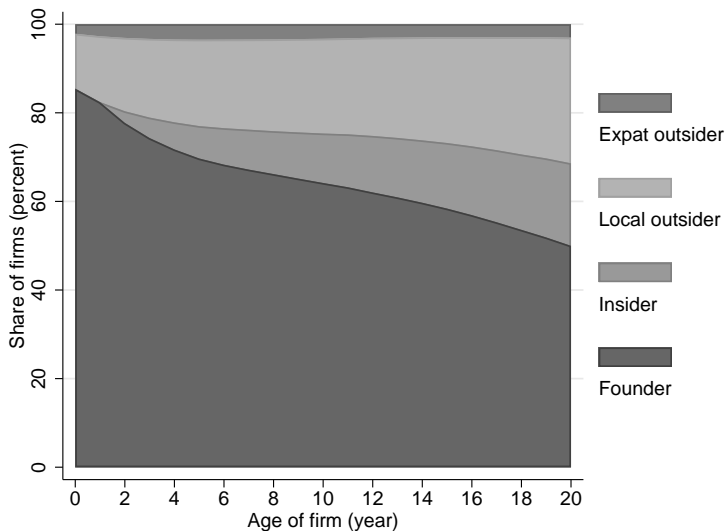
Left with 24,500 firms

Descriptives

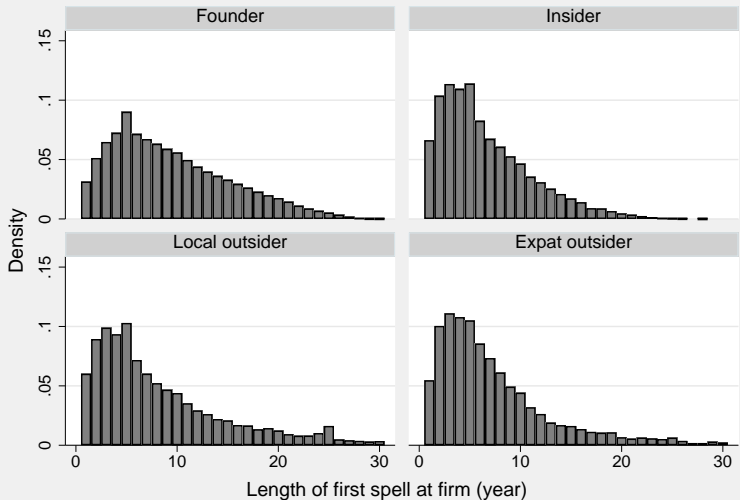
The number of CEOs increased sharply until 2010



The share of firms managed by founders gradually decreases with age

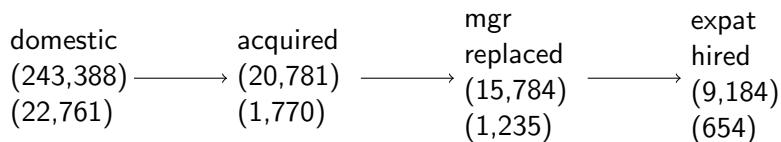


Founders stay longest at the firm



Estimates

Degree of control



Variables

- ▶ **foreign**: firm has majority foreign owner
- ▶ **foreign_hire**: firm has a manager hired by foreign owner
- ▶ **has_expat**: firm has an expat manager
- ▶ **CONTROL^k**: one of the three ($k = 1, 2, 3$)
- ▶ **lnL**: log employment
- ▶ **lnQL**: log output per worker
- ▶ **TFP_cd**: TFP (simple Cobb–Douglas)
- ▶ **exporter**: firm has positive exports
- ▶ **RperK**: share of immaterial assets in total $[0,1]$

Estimating equations

Bernard-Jensen

Sample: domestic firms and acquisitions

$$Y_{ist} = \mu_{st} + \sum_{k=1}^3 \beta_k \text{CONTROL}_{it}^k + u_{ist}$$

Selection

Sample: $\text{CONTROL}_i^{k-1} = 1$, years before acquisition

$$\text{CONTROL}_i^k = \mu_{st} + \gamma X_{it} + u_{ist}$$

Diff-in-diff

Sample: domestic firms and acquisitions

$$Y_{ist} = \alpha_i + \mu_{st} + \sum_{k=1}^3 \beta_k \text{CONTROL}_{it}^k + u_{ist}$$

Foreign firms are better in most respects

VARIABLES	(1) lnL	(2) lnQL	(3) TFP_cd	(4) exporter	(5) RperK
foreign	0.477*** (0.049)	0.465*** (0.039)	0.012 (0.008)	0.188*** (0.016)	0.019*** (0.004)
foreign_hire	0.172** (0.070)	0.190*** (0.062)	0.008 (0.012)	0.084*** (0.020)	0.007 (0.006)
has_expat	-0.110 (0.074)	-0.019 (0.063)	-0.002 (0.012)	0.048** (0.020)	-0.003 (0.007)
Observations	264,071	264,071	262,881	264,071	262,911
R-squared	0.148	0.433	0.012	0.235	0.085
Ind-year FE	YES	YES	YES	YES	YES

Positive selection on exports, negative on TFP

VARIABLES	(1) ever_foreign	(2) ever_foreign_hire	(3) ever_expats
lnL	0.005*** (0.001)	0.003 (0.010)	-0.019 (0.012)
exporter	0.020*** (0.003)	0.070** (0.030)	0.066* (0.036)
TFP_cd	-0.003** (0.001)	-0.040** (0.018)	0.011 (0.027)
RperK	0.026*** (0.008)	0.174* (0.095)	-0.223** (0.093)
Observations	250,450	8,919	5,769
R-squared	0.108	0.128	0.236
Ind-year FE	YES	YES	YES

Hiring an expat is associated with increased productivity and exporting

VARIABLES	(1) lnL	(2) lnQL	(3) TFP_cd	(4) exporter	(5) RperK
foreign	0.135*** (0.036)	0.065** (0.026)	0.029** (0.013)	0.040*** (0.012)	0.015*** (0.004)
foreign_hire	-0.085 (0.053)	0.150*** (0.039)	0.021 (0.019)	0.011 (0.016)	0.005 (0.005)
has_expats	0.054 (0.055)	0.103** (0.043)	0.009 (0.020)	0.031* (0.018)	-0.003 (0.006)
Observations	262,417	262,417	262,093	262,417	261,164
R-squared	0.647	0.820	0.088	0.638	0.484
Ind-year FE	YES	YES	YES	YES	YES
Firm FE	YES	YES	YES	YES	YES

Expats help start exporting, but have no effect on continuation

VARIABLES	(1) Start	(2) Continue
foreign	0.032** (0.013)	0.015 (0.012)
foreign_hire	-0.010 (0.015)	0.032** (0.013)
has_expat	0.059** (0.024)	-0.008 (0.011)
Observations	159,353	71,100
R-squared	0.284	0.345
Ind-year FE	YES	YES
Firm FE	YES	YES

Conclusions

Conclusions

- ▶ What are the causes and consequences of foreign acquisitions?
- ▶ We ask when managers are also replaced.
- ▶ Using data on the universe of foreign acquisitions in Hungary, 1980-2018, we estimate that exporters and low-productivity firms become more tightly controlled.
- ▶ Foreign controlled firms become more productive and more likely to export.
- ▶ These facts help inform theories about the boundaries of global firms and about the role of managers in firm performance.

Next steps

- ▶ Collect data on parent firms.
- ▶ Build an incomplete-contract model.