

Business and Management Seminar

Date 26 February 2014

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Title How does the labour quality in overseas affiliates affect the productivity of parent companies? A global value chain perspective

Abstract

The traditional view of the multinational corporation (MNC) envisages knowledge flowing from the parent company to the overseas affiliates to the benefit of the latter. But recent research has suggested that there may be a reverse knowledge transfer effect through which MNC parent companies may benefit from the activities of their overseas affiliates. In this paper, we consider whether the labour quality in overseas affiliates has an impact upon the productivity of MNC parent companies. We test empirically for this relationship using a firm-level panel of more than 1,600 manufacturing MNCs and more than 2,400 overseas affiliates, covering 30 home and host countries in the period 2004-2012. Our main results indicate that highly-skilled labour in overseas affiliates has a significant impact upon the productivity of parent companies, suggesting the existence of a strong reverse knowledge transfer effect - a finding robust to a large set of different specifications. In addition, we also establish that this knowledge transfer effect is greater (1) when the overseas affiliates are in related, rather than unrelated, industries; (2) when the overseas affiliates are downstream, rather than upstream, in the MNCs global value chains; (3) when the overseas affiliates involve horizontal, rather than vertical, FDI; and (4) when the overseas affiliates are wholly-owned subsidiaries, rather than joint ventures.

Keywords: Labour Quality, Productivity, Knowledge flows, Global value chain, Entry Mode

JEL Codes: F20, F23, F02