In this paper, we test the contribution of foreign management to firms’ competitiveness. We use a novel dataset on the careers of 165,084 managers employed by 13,106 companies in the United Kingdom in 2009-2017. We find that domestic manufacturing firms become on average 4.9% more productive and about 23.3% more capital intensive after hiring foreign managers. In particular, we find that previous industry-specific experience by foreign managers is the primary driver of productivity gains in domestic firms. We do not find any significant impact on foreign-owned firms after hiring foreign managers. Our identification strategy combines matching techniques, difference-in-difference, and pre-recruitment trends to challenge reverse causality. Results are robust across different specifications and to sample composition effects. Eventually, our findings pinpoint how limits to the global mobility of managerial talents risk hampering the competitiveness of domestic industries.

Empirical strategy and results

We build on previous studies that test productivity gains as a consequence of foreign acquisitions (Bloom et al., 2019; Arnold and Javierce, 2000; Javierce and Poelhekke, 2017):

\[
\log(TFP)_{i,j,r,t} = \beta_0 + \beta_1 \text{Hired}_{i,j,r,t} + \beta_2 X_{i,j} + \beta_3 t + \epsilon_{i,j,r,t}
\]

TFP: Total factor productivity of a firm in a sector and region at time \(t\)
\(X\): a binary showing if a firm recruited the first foreign manager
\(\epsilon\): a binary showing the years after recruitment.

We assess the impact of newly hired foreign managers in firms’ competitiveness. We challenge the hypothesis that market barriers to the circulation of highly skilled workers, including managerial mobility, are the primary driver of productivity gains in domestic firms. We do not find any significant impact on foreign-owned firms after hiring foreign managers. Our identification strategy combines matching techniques, difference-in-difference, and pre-recruitment trends to challenge reverse causality. Results are robust across different specifications and to sample composition effects. Eventually, our findings pinpoint how limits to the global mobility of managerial talents risk hampering the competitiveness of domestic industries.

Foreign employment in the UK has risen from 3.54% to 11.33% for the period 1997-2009 (ONS, 2019).

We argue that an evaluation of firms’ productivity gains should logically precede any increase in exporting activity.

We assess the impact of newly hired foreign managers in firms’ competitiveness.

### Data and preliminary results

**Source:** Orbis, compiled by the Bureau Van-Dijk. Information on 13,106 firms operating in the United Kingdom for the period 2009-2017, matched with 165,084 managers.

Our proxy for competitiveness is the total factor productivity (TFP) estimated for a modified method by Ackerberg, Caves and Frazer (2015).

16.43% managers have a foreign nationality. Preliminary correlations indicate that:

- Foreign firms are more productive than domestic firms.
- Firms with foreign managers in their team are more productive.
- Domestic firms with foreign managers are more productive while the premium disappears in the case of foreign firms.
- Foreign firms are not significantly more productive than domestic firms with foreign managers in that case, we challenge the hypothesis that foreign managers can transfer knowledge to a domestic firm and, thus, allow them to catch up with foreign or domestic competitors.

### Discussion

- Positive impact of newly hired foreign managers on domestic firms.
- Main results, from the diff-in-diff after propensity score matching suggest 4.9% [log units: 0.048] rise in TFP. In both cases we find no significant evidence on productivity gains for foreign firms. In that case, we argue that foreign headquarters already had the opportunity to realign managerial practices in subsidiaries at the time of takeovers.
- TFP gains in domestic firms are mainly explained by previous market-specific experience. Previous market experience entails an on-field training that may be particularly appealing to recruiters.
- Additional findings indicate significant changes in sales, intermediate inputs and capital intensity, as well as weakly significant increases in fixed assets.
- Main results are robust under alternative TFP estimations, placebo tests and sample composition effects.

### Conclusions

- Recruiting highly-skilled workers allows firms to have access to a broader pool of skills than those available in the domestic market.
- Previous industry-specific experience is a key mechanism that drives the impact of foreign recruitments on firms’ competitiveness.
- No significant productivity gains by foreign managed firms after hiring foreign managers.
- Upcoming barriers to the circulation of highly skilled workers, including managerial mobility, hampers domestic manufacturing industries’ competitiveness.