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Multinational Firms, Labor Market Discrimination, and the Capture of Competitive Advantage by Exploiting the Social Divide

by Jordan I. Siegel, Lynn Pyun and B.Y. Cheon

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Abstract

The organizational theory of the multinational firm holds that foreignness is a liability, and specifically that lack of embeddedness in host-country social networks is a source of competitive disadvantage; meanwhile the literature on labor market discrimination suggests that exploiting the bigotry of others can be a source of competitive advantage. We seek to turn the former literature somewhat on its head by building on insights from the latter. Specifically, we argue that multinationals wield a particularly significant competitive weapon: as outsiders, they can identify social schisms in host labor markets and exploit them for their own competitive advantage. Using two unique data sets from South Korea, we show that in the 2000s multinationals have derived significant advantage in the form of improved profitability by aggressively hiring an excluded group, women, in the local managerial labor market. Our results are economically meaningful, realistic in size, and robust to the inclusion of firm fixed effects. Multinationals, even those whose home markets discriminate against women, often show signs of having seen the strategic opportunity. Though the host market is moving toward a new equilibrium free of discrimination, that movement is relatively slow, presenting a multiyear competitive opportunity for multinationals.

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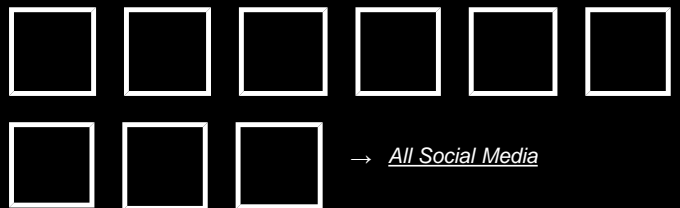
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