

Project of the Month

Project B5 (Marin/Schnitzer): Globalisation and Corporate Organisation

In the last decade the nature of the corporation has been changing. These changes involved a change in management style to more decentralized, less hierarchical decision making, the emergence of human capital as the new stakeholder in the firm, and the organisation of the corporation in an international value chain in which different stages of production are taking place in different countries. At the same time the firm boundaries are shifting leading to outsourcing of firm activities on the one hand and an explosion of foreign direct investment activity on the other. The new corporation is global, less hierarchical and human capital intensive. Project B5 examines the sources and consequences of these changes of the corporation.

To address these changes Project B5 opens up the black box of the firm and brings 'real firms' into international trade theory. We proceed in two directions. First, we introduce firms with internal hierarchies in international trade models with imperfect competition. In a first step, we introduce firms' organisational choices in a Krugman model of monopolistic competition (Marin and Verdier 2002, 2005). This allows us to examine how trade and international competition is affecting corporate organization in similar countries. We find that international trade and the toughness of competition in international markets induce a power struggle between owners and managers of firms which eventually leads to decentralised corporate hierarchies. In a second step, we examine in Marin and Verdier (2003, 2004) how trade between dissimilar countries is affecting the corporate equilibrium organisation of the world economy. We introduce organisational choices in a 2x2x2 Helpman and Krugman model of international trade in which countries differ in factor endowments. We find that relative factor endowments are important determinants of the equilibrium mode of organisation. We find further that when two countries with different relative factor endowments open up to trade, their factor prices will tend to converge and this could induce a convergence in corporate cultures leading all

owners in both countries to delegate power to managers even when no owner in any of the two countries was delegating under autarky.

Second, we examine changes in firms' boundaries in models of the multinational corporation. We introduce organisational choices in the firms' decisions how to enter a foreign market. In Mugele und Schnitzer (2006) we examine theoretically the investment decisions of multinational firms and find that production intensive sectors are more likely to invest abroad than marketing intensive sectors, irrespective of the motive of the foreign investment. Furthermore, distance reduces the likelihood of wholly owned investments, but has a non-monotonic impact on horizontal investments. In Marin and Schnitzer (2006) we examine under what conditions foreign direct investments involve a net capital flow to the host country. We find that investments are more likely to be financed locally the larger the managerial incentive problems that need to be governed. In particular technology intensive investments tend to be financed locally such that technology flow and capital flow need not go hand in hand. These predictions are consistent with empirical data from German and Austrian investments in Eastern Europe. In Müller und Schnitzer (2006) we study how the risk of technology spillovers affects the willingness to transfer technology to the host country. We find that joint ventures may mitigate the technology transfer problem but we can also identify conditions under which a host country may be better off without a joint venture.

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Education

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Dalia Marin holds a Chair in International Economics at the University of Munich. She has been a visiting professor or visiting scholar at Harvard University, Stanford University, New York University, the National Bureau of Economic Research, Cambridge, Mass, at the Research Department of the International Monetary Fund and at the

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Her research interests are in the area of international economics, corporate finance and the organization of the firm, and in emerging market economies.

Her work, both theoretical and empirical, has been published in several top journals.

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Monika Schnitzer holds a Chair in Comparative Economics at the University of Munich since 1996. She has been a visiting professor at Boston University, MIT, Stanford University and Yale University. She is associate editor of the Journal of Industrial Economics, the German Economic Review and CESifo Economic Studies. Furthermore, she is CEPR Research Fellow and a Fellow of the CESifo Network. Currently, she is a member of the Council of the European Economic Association. Since 2001, Monika Schnitzer serves on the Council of Economic Advisors or the Federal Ministry of Economics and Labour. Since 2004, she is a member of the Economic Advisory Group on Competition Policy, Competition DG, of the European Commission. Her research interests are in the areas of competition policy, industrial organization, corporate finance and banking, and international trade. Her work has been published in journals such as American Economic Review, Rand Journal of Economics, European Economic Review, Journal of Industrial Economics, and International Journal of Industrial Organisation.

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Daniel Sturm is an Assistant Professor (Wissenschaftlicher Assistent) at the Department of Economics of the University

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Richard Schmidtke is research assistant (wissenschaftlicher Angestellter) at the Department of Economics, University of Munich. The academic year 2004/2005 he spent as a visiting PhD-Student at the University of Toulouse. His main research interests are industrial organization and microeconomics.

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