

THE ORGANIZATION OF KNOWLEDGE IN MULTINATIONAL FIRMS

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Abstract

This paper studies the organization of knowledge in multinational firms. In the theory, knowledge is a costly input for firms that they can acquire at their headquarters or their production plants. Communication costs impede the access of the plants to headquarter knowledge. The model shows that multinational firms systematically acquire more knowledge at both their foreign and domestic plants than non-multinationals if their foreign plants face higher communication costs with headquarters than their domestic plants. This theoretical prediction helps understand why multinational firms pay higher wages to workers than non-multinational firms, and why their sales decrease across space. The empirical analyses show that higher communication costs indeed decrease multinational firms' foreign sales. Consistent with model-specific comparative statics, the decrease is stronger in sectors with less predictable production processes. Data on corporate transferees allow shedding light on one tool of multinational firms' organization of knowledge. (JEL: D21, D24, F21, F23.)

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