Ethnic Diversity and Firm’s Exporting Behavior*

Pierpaolo Parrotta,† Dario Pozzoli,‡ Mariola Pytlikova,§ and Davide Sala¶

Abstract

The composition of the labor force matters along two dimensions for the export behavior of firms: First, labor diversity may raise firm productivity and thus indirectly the export propensity. Secondly, it may increase the managerial and organizational ability of the firm, because it faces the challenge of diversity management, and thereby may reduce the firm’s fixed cost of exporting. Diversity management is costly to the firm. In order to manage a diverse labor force, it presumably has to overcome bundling cost, i.e., it has to train workers with a different cultural background to work together cooperatively. This "training on (another) job" may affect the firm’s internationalization process: Having successfully managed to sustain a diversified labor force endows the firm with a set of communicative, informational and managerial skills, which lowers the firm-specific fixed cost of exporting and thus - ceteris paribus - increase the propensity of exporting and facilitate the management of cross-border transactions. Thus, controlling for indirect productivity effects, diversity can be conjectured to affect the extensive margin of exporting, i.e., the number of foreign markets served by the firm and the number of products which the firm exports. Moreover, it may boost the export volume, i.e., the intensive margin of firm trade.

JEL Classification: F10, D21

Keywords: Ethnic diversity, exporting behavior, fixed cost of exporting.

---

*We thank Yosef Bhatti and Lene Holm Pedersen for providing us data on elections at the municipality level. Pierpaolo Parrotta acknowledges the financial support from the Graduate School for Integration, Production and Welfare, and the Swiss National Centres of Competence in Research LIVES. Mariola Pytlikova gratefully acknowledges funding from the NORFACE Migration Programme. The usual disclaimer applies.

†Business and Social Sciences, Aarhus University; Department of Economics, University of Lausanne. Email: pierpaolo.parrotta@uni.l.ch.

‡Corresponding author. Business and Social Sciences, Aarhus University; and IZA. Email: dpozzoli@asb.dk.

§KORA, Danish Institute of Governmental Research. Email: mapy@kora.dk.

¶Department of Economics, University of Southern Denmark. Email: dsala@sam.sdu.dk