The Labor Productivity of U.S. Small and Medium-Sized Enterprise Multinational Companies

Tamar Khachaturian, Office of Industries
Tamar.Khachaturian@usitc.gov, (202) 205-3299

The Commission recently examined the operations of U.S. small and medium-sized enterprises (SMEs) that were also multinational companies (MNCs).[1] The Commission's analysis found that the average labor productivity of SME wholesalers and manufacturers that were MNCs was higher than the average labor productivity for all U.S. SME wholesalers and manufacturers. This paper extends the Commission's early analysis and demonstrates that SME MNCs across all sectors demonstrate higher labor productivity than all SMEs as a group. Further, the difference in productivity between MNCs and all firms is considerably more pronounced for SMEs than large firms. These trends are similar to findings from the Commission's study, which reported the relatively rare yet dynamic nature of SME exporters.[2]

A greater understanding of MNCs is vital given their significant contribution to overall U.S. productivity. Cummings et al. (2010) show that MNCs accounted for 39 percent of sales in 2007 and 41 percent of labor productivity growth from 1990–2007.[3] MNC contributions to productivity were disproportionately higher relative to their share of sales during periods of economic expansion, spanning the years 1991–2000 and 2001–2007 (54 and 50 percent, respectively).[4] Similarly, examining a longer period of time, Corrado et al. show that average labor productivity growth of MNCs was more than double the average rate for all U.S. firms from 1977–2000 and MNCs accounted for more than half of overall gains in aggregate productivity during that time.[5]

The gap in labor productivity between the average productivity of all U.S. firms and MNCs widened during the latter part of the 1990s,[6] coinciding with a post-1995 surge in U.S. productivity.[7] Using sales per worker as a measure of labor productivity,[8] the U.S. average across all firms was $246,648 in 2007, while that of U.S. MNCs (U.S. parent firms) was 1.6 times that level, at $391,524 (see table on following page).[9] The productivity differential between MNCs and all firms holds across most industries.[10]

SMEs as a group tend to be less productive than large firms. Labor productivity for U.S. SMEs was about 60 percent the level of large firms ($190,090 versus $302,395) in the United States in 2007. However, SME MNCs tend to radically differ from other SMEs: they are both more productive than large MNCs in

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[1] USITC, *Small and Medium- Sized Enterprises*, November 2010, http://www.usitc.gov/publications/332/pub4189.pdf. The study was third in a series of reports that examined, among other things, U.S. SME domestic and international activity.

[2] Ibid. In 2007, there were an estimated 555 SME MNCs, representing roughly a quarter of all MNCs and 1.8 percent of all U.S. parent sales. See chapter 3 for analysis of services SME exporters and chapter 4 (pages 4-7 to 4-8 and table 4.3) for relative productivity of U.S. MNC manufactures and wholesalers.

[3] Cummings et al., "Growth and Competiveness in the United States," 2010, 3 and 11. Only U.S. MNCs (MNCs headquartered in the United States) are included, see page 18.

[4] Ibid. See page 19, Exhibit 13. MNCs accounted for 23 percent of value added and 20 percent of employment on average from 1990–2007.

[5] Corrado et al., "The Contribution of Multinational Corporations to U.S. Productivity Growth, 1977-2000," 28 (tables 3 and 4.) All U.S. firms/the aggregate economy refer to the nonfarm private business sector as a whole. MNCs include both U.S. parents and the affiliates of foreign companies.

[6] Ibid, 28 (table 3).

[7] Triplett and Bosworth, *Productivity in the U.S. Services Sector*, 2004; Triplett and Bosworth, "Productivity Measurement Issues in Services Industries," 2003.

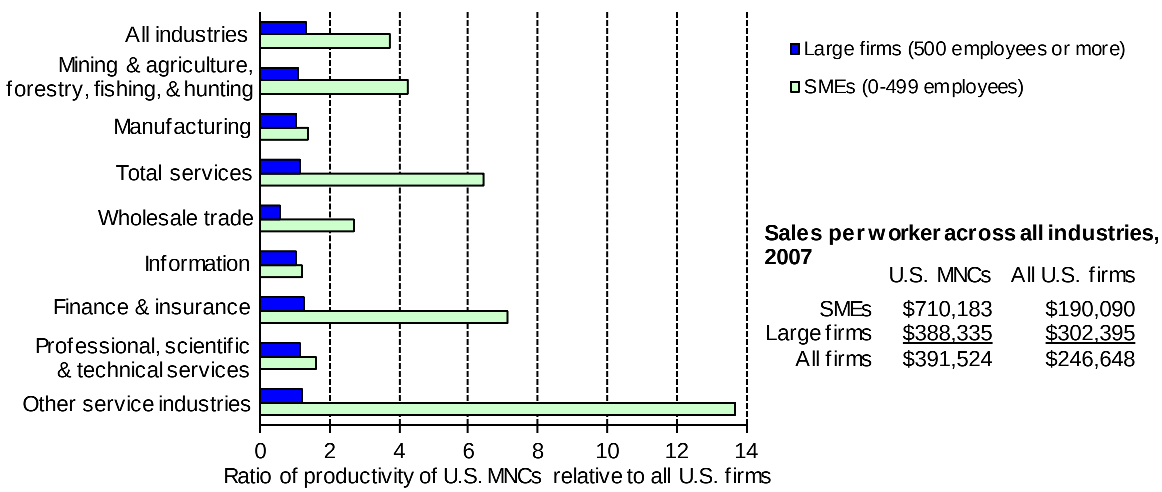
[8] Sales per worker is used as the measure of productivity for both MNCs and across all firms since data on output, value added, or hours worked were not available for MNCs by size class. Sales per worker may overstate the efficiency of MNCs since it does not account for sub-contracting, prevalent among MNCs. Further, employment data for both MNCs and all firms includes part-time employees, which may distort the measure of productivity.

[9] Labor productivity differential is the ratio of labor productivity of MNCs (U.S. parents) relative to all firms.

[10] The exceptions are mining and agriculture, forestry, fishing, and hunting (where there are the fewest number of MNCs) and wholesale trade (where firms are already among the most productive).

most sectors and the difference in productivity between SME MNCs and all SMEs is markedly greater than that between large MNCs and all large firms. As such, in terms of productivity, being an MNC makes more of a difference for SMEs than large firms. The figure below depicts the extent to which labor productivity among MNCs, both large and small, exceeds that of all U.S. firms in each industry:

Being an MNC impacts the productivity of SMEs more than large firms, 2007



Sources: Author calculations based on data from U.S. Department of Commerce, Bureau of Economic Analysis, International Investment Division and U.S. Small Business Administration, Statistics of U.S. Businesses. The MNC data are available at http://www.bea.gov/international/supplemental_estimates.htm.

Note: Data refer to U.S. parents. See footnotes 11 and 12 for industry definitions.

- While across all industries, large MNCs labor productivity ($388,335) was 1.3 times the labor productivity of the average large firm ($302,395), SME MNCs had 3.7 times the labor productivity of the average small firm ($710,183 versus $190,090).

- Relative to manufacturing or to mining & agriculture, forestry, fishing, & hunting, the differential is highest for the total services category.[11] Across services in 2007, large MNCs had 1.1 times the productivity of the average large firm ($311,465 versus $272,879); on the other hand, SME MNCs had 6.4 times the productivity of the average small firm ($1,235,779 versus $192,066). Within services, SME MNCs exhibited the highest productivity gap in wholesale trade; finance and insurance; and other industries.[12]

Relative to selling locally or exporting, establishment of affiliates entails higher fixed costs, and research shows that the most productive firms serve foreign markets by establishing operations abroad rather than exporting.[13] SME MNCs' high productivity and associated profits enables them to overcome the costs associated with establishing a foreign commercial presence. Policies which facilitate the process of becoming an MNC are likely to have positive spillover effects in the domestic economy. Policies which are focused on SMEs are especially important given that those SMEs with an international presence dramatically outperform other SMEs.

[11] "Total services" includes wholesale trade; information; finance (except depository institutions) and insurance; professional, scientific, and technical services; and other industries.

[12] "Other" industries consists of the following NAICS sectors: Utilities; construction; retail trade; transportation and warehousing; real estate and rental and leasing; management of companies and enterprises; administration, support, and waste management; health care and social assistance; accommodation and food services; and miscellaneous services.

[13] Helpman et al., "Export versus FDI with Heterogeneous Firms," 2004 and Barefoot and Mataloni, "U.S. Multinational Companies," August 2010, 208, 210.

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