

# Study: Why are multinationals more productive than non-multinationals? Evidence from Canada

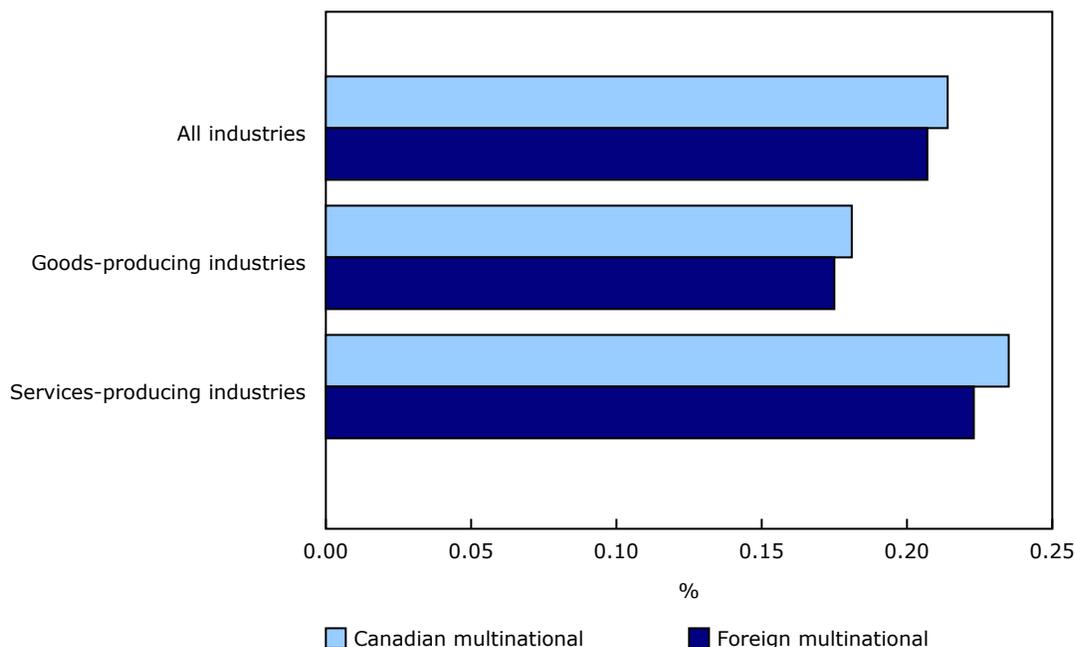
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The greater productivity of multinationals—firms with foreign affiliates or subsidiaries—is mostly explained by the fact that highly productive firms are more likely to become multinational, according to a new study published by Statistics Canada. The study, titled "[Why Are Multinationals More Productive than Non-multinationals? Evidence from Canada](#)," shows that multinationals are 23% more productive than non-multinationals, but becoming a multinational does not in itself result in large productivity gains.

Understanding the difference in productivity between multinational and non-multinational firms and why it exists is important because previous research indicates that, in 2016, multinationals operating in Canada held 67% of assets, despite making up 0.8% of firms.

The study finds that multinationals are equally productive whether they are Canadian-owned or foreign-owned. However, the productivity advantage of multinationals is larger in services-producing industries than in goods-producing industries.

**Chart 1**  
Productivity advantage of multinationals relative to non-multinationals, Canadian and foreign



**Note(s):** Productivity refers to multifactor productivity.

**Source(s):** Statistics Canada, authors' compilation based on data from the linked survey of Canada's International Investment Position and National Accounts Longitudinal Microdata File.

There are several theories as to why multinationals are more productive than non-multinationals on average. One is "the selection effect," in which the firms that become multinationals tend to be highly productive before becoming multinationals. Firms establishing in foreign markets must be able to overcome challenges associated with

additional costs from new markets, differences in cultural norms, less association with the local community, and management challenges related to the greater distances between locations. Therefore, only the most productive firms are able to overcome these challenges and operate profitably in foreign markets.

Another theory is that firms learn and improve their productivity after becoming multinationals, referred to as "the learning effect." Firms operating in international markets may realize economies of scale and have more flexible production structures that can better handle supply and demand shocks. In addition, the presence of physical operations in a foreign market allows firms to improve their knowledge of local business opportunities, which provides them with the access and opportunity to subsequently transfer location-specific knowledge.

The study finds evidence that the selection effect is larger than the learning effect. When examining all industries, multinationals are 19% more productive than non-multinationals before they become multinationals and 23% more productive after. The change in the productivity advantage represents the learning effect; in other words, 19% of the productivity advantage for multinationals is from the selection effect, and the remaining 4% is from the learning effect.

A possible explanation for the large selection effect is that multinationals invest relatively more in research and development (R&D) than non-multinationals, especially before they become multinationals. R&D investment represents a key strategy for firms to develop firm-specific advantages, such as innovative products and production processes, intellectual property, and absorptive capacity. After becoming multinational, firms may receive additional returns to R&D investment due to flexible production structures across countries, larger product markets, and access to foreign technologies and resources.

#### Note to readers

*The COVID-19 pandemic has changed the way we live and work. At the onset of physical distancing measures in mid-March, Statistics Canada remained committed to producing essential data, such as employment numbers, to help Canadians better understand the new reality.*

*The agency also focused its energies on releasing information and innovative statistical tools to support our partners and Canadians in their efforts to address and mitigate the health, social and economic impacts of the pandemic on the general public and on businesses.*

*While Statistics Canada continues to provide high quality statistics to inform Canadians' response to COVID-19, it will further expand its publishing activities to include in-depth analysis of the country's economy and society prior to the pandemic. This will help Canadians better understand how their world has changed, and will provide them with the context they need to effectively deal with the repercussions of COVID-19 and to plan ahead.*

The study "[Why Are Multinationals More Productive than Non-multinationals? Evidence from Canada](#)," which is part of the *Analytical Studies Branch Research Paper Series (11F0019M)*, is now available.

For more information, contact us (toll-free 1-800-263-1136; 514-283-8300; [STATCAN.infostats-infostats.STATCAN@canada.ca](mailto:STATCAN.infostats-infostats.STATCAN@canada.ca)).

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