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The internal labor markets of business groups[☆]

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ABSTRACT

This paper provides micro evidence of labor mobility inside business groups. We show that worker flows between firms in the same group are stronger than with unaffiliated firms. Moreover, the reallocation of top workers between group firms is more sensitive to international shocks. Top workers that move within the group in response to shocks reach higher positions and earn higher wages. We find suggestive evidence that productivity increases when firms receive same-group top workers. Our results are consistent with the hypothesis that, in response to changing opportunities, joint ownership eases the redeployment of workers endowed with general management skills.

1. Introduction

Business groups are common corporate structures around the world. More than half of all listed firms in emerging markets, and a sizable fraction in many developed countries, are affiliated to business groups (Khanna and Yafeh, 2007; Morck et al., 2005). Business groups consist of legally independent firms controlled by the same ultimate shareholder. As an example, Fig. 1 shows the corporate structure of Antarchile, one of the largest business groups in Chile and controlled by the Angelini family. There are several reasons that can explain the existence of these complex ownership structures. One explanation argues that business groups create factor markets between affiliated firms to alleviate frictions in external markets. Along these lines, there is growing evidence that business groups transfer capital between firms to overcome financial constraints.[1]

Little is known about other factor markets in business groups. Internal labor markets, in particular, can allow business groups to

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[1] See Gopalan et al. (2007), Boutin et al. (2013), Buchuk et al. (2014), Almeida et al. (2015), and Buchuk et al. (2020).

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