

Doing Business Far from Home: Multinational Firms and Labor Market Outcomes in Saudi Arabia

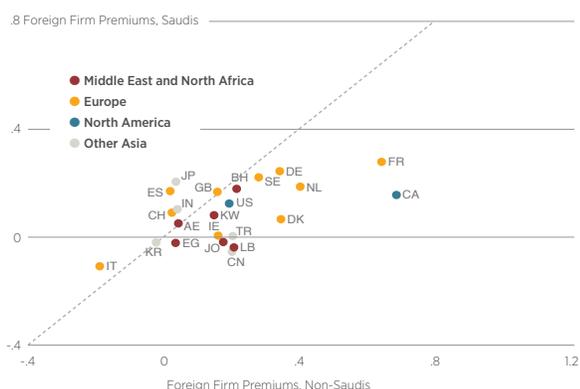
Based on BFI Working Paper 2022-47, [“Doing Business Far from Home: Multinational Firms and Labor Market Outcomes in Saudi Arabia,”](#) by Alessandra L. González and Xianglong Kong, University of Chicago

Foreign firms tend to offer higher wages and hire a larger share of Saudi workers, but they are not more likely to hire female workers despite coming from countries with greater female labor force participation.

What happens when foreign multinationals move into a country with deep-seated cultural norms that differ from their home country? Economists have long noted the effects on local labor markets when foreign companies hire domestic workers, but little is understood about the behavior of foreign multinationals seeking employees in cultural settings highly distinct from their own. What is the role of these differing cultural norms in explaining foreign firm behavior?

To answer this question, the authors analyze the behavior of multinational firms and workers in Saudi Arabia, a country with historically sizable foreign direct investment (FDI), despite its lack of incentives to particularly draw FDI relative to other countries in the region, and a country with conservative norms related to religion and gender that are reflected in business activities and that affect labor supply. The authors use a novel employer-employee matched dataset of Saudi firms in the private sector that unifies both employer-employee matched data and foreign ownership information for the private sector in Saudi Arabia, to find the following:

Figure 1 • Foreign Firm Premium Estimates by Country of Origin



Note: This Figure shows that most countries pay higher premiums to non-Saudis relative to Saudis. To illustrate this, the authors include a 45-degree line, where countries paying higher premiums to non-Saudis lie below the line. Foreign firm premium estimates for Saudis are shown on the vertical axis, and the foreign firm premiums for non-Saudis are shown on the horizontal axis. Please see working paper for more details.

- Foreign firms on average become larger in employment size and offer higher wages relative to domestic firms.
- Foreign firms, relative to domestic firms in the same industry, hire a larger share of Saudi workers.
- However, there is no significant difference in female share even though most foreign firms come from countries with higher female labor force participation (FLFP) rates.

Regarding wages, the authors find:

- Foreign firms pay a premium of 9% for Saudi workers and 16% for non-Saudi workers.
- Premiums are slightly higher for high-wage Saudis but slightly lower for high-wage non-Saudis.
- Notably, premiums for non-Saudis are higher than those for Saudis regardless of the wage group to which they belong.

Combined with the results in worker shares, the authors document that foreign firms pay a lower premium to Saudis while hiring a larger share of them. These results contrast with past research on foreign firm effects, which has found a positive correlation between relative wage and relative labor: more productive foreign firms pay a higher premium to high-skill workers and hire a larger share of them relative to domestic firms.

The authors rationalize these results using a simple model in which foreign and domestic firms differ in their productivity levels and amenities offered to each type of worker. The authors emphasize amenities to be the non-wage job characteristics that are influenced by deep-seated cultural norms, such as gender-segregated workplaces for both men and women workers and flexible work schedules during daily prayer, Muslim holidays, and fasting season. The authors find that amenities are important in understanding foreign firms' wage setting and worker hiring decisions in settings with differing deep-seated cultural norms.

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ABOUT OUR SCHOLARS



Alessandra González

*Research Assistant Professor,
Kenneth C. Griffin Department of Economics*

[economics.uchicago.edu/directory/
alessandra-gonzález-0](https://economics.uchicago.edu/directory/alessandra-gonzález-0)

[alessandra-gonzález-0](https://economics.uchicago.edu/directory/alessandra-gonzález-0)



Xianglong Kong

*PhD Student,
Kenneth C. Griffin Department of Economics*

[economics.uchicago.edu/directory/
xianglong-kong](https://economics.uchicago.edu/directory/xianglong-kong)

[xianglong-kong](https://economics.uchicago.edu/directory/xianglong-kong)

