# Language Barriers in MNCs and Knowledge Transfers[*]

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**Abstract**

A distinctive feature of foreign affiliates of MNCs is that they are run by foreign managers (FMs) who supervise domestic middle managers (DMs) who supervise domestic production workers. Language barriers between FMs and DMs could impede knowledge transfers and reduce beneficial spillovers from foreign investment for the host country. We develop a model that clarifies when the social planner should intervene to reduce communication barriers between FMs and DMs. This occurs when: (i) communication is complementary with language proficiency; (ii) management knowledge is learned through communication; (iii) communication is non-contractible; (iv) knowledge gained at MNCs is valued by domestic firms. We experimentally test the validity of these assumptions among MNCs operating in Myanmar, a context in which communication between FMs and DMs occurs in English despite DMs' low English proficiency. The first experiment provides English training to a random sample of DMs working at MNCs. At endline, treated DMs have higher English proficiency, communicate more frequently with their FMs, are more involved in firm management, and perform better in simulated management tasks. Treated DMs also report higher WTP for additional meetings with FMs, supporting the assumption that communication within firms is non-contractable. The second experiment recruits human-resource managers at domestic firms and asks them to rate hypothetical job candidates who randomly differ in their characteristics. Employers particularly value candidates with both higher English proficiency and MNC experience, and this is driven, in part, by a premium for frequent interactions with FMs. Together, these results suggest an under-investment in language training relative to the social optimum.

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