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PRESS RELEASE

(Not so) easy come, (still) easy go? Footloose multinationals revisited

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In their policies for attracting foreign direct investment, public authorities take into account the fact that multinational firms (MNFs) are particularly dynamic and can grasp the opportunities offered by foreign markets. The reverse of the coin is that, in the case of negative shocks, MNFs may react (more) quickly, deciding to withdraw from foreign markets. This footloose nature of MNFs is an important issue for public authorities in terms of social costs. One major concern is that of employment destruction. As MNFs are typically larger, closing them down often entails major job losses. The footloose nature of MNFs is also challenging for Belgian firms' productivity levels. As MNFs are generally more productive, when they close down their Belgian subsidiary, this implies a drop in the productivity level and cuts down a source of potential technological and knowledge spillover.

The importance of MNF plant mobility for an economy calls for a better understanding of the determinants of firm exits, and more specifically of the differences in exit behaviour between MNFs and domestic firms. This is the aim of our paper. It contributes to the literature on footloose multinationals in two main ways.

First, it considers the role of sunk costs as barriers to firm exit. It also considers the role of firm size in addition to sunk costs. Size may conveniently control for other sources of barriers to exit, such as economies of scale, the possible multi-plant nature of the firm, or better management for example.

Second, it examines whether, in their decision to exit, MNFs have a different sensitivity to sunk costs than domestic firms. It also tests whether MNFs are more sensitive than domestic firms to a drop in their performance.

The empirical analysis relies on a very rich and wide panel of Belgian firms, for manufacturing industries, construction and market services, over the period 1998-2008. A random effects Probit model is estimated for firm exit, thus allowing for unobserved firm heterogeneity and taking into account the potential endogeneity of the explanatory variables with respect to firm effects as well as the residual.

Our main findings are the following. Firstly, the unconditional exit probability of MNFs is lower than that of domestic firms. Secondly, the probability of exit depends on productivity, sunk costs, size, market structure, firm's age, etc. After controlling for these variables, we find evidence that MNFs have a higher propensity to exit than domestic firms. However, we do not find any evidence suggesting that Belgian MNFs would be less likely to close down a local production site than foreign MNFs. Thirdly, our results indicate that exit barriers, such as sunk costs and size, seem to have less impact on the exit decision of MNFs compared to domestic firms, which may rationalise part of their footloose nature. Conversely, MNFs do not seem to overreact more aggressively to an absolute deterioration in their Belgian subsidiaries' productive performance. Yet, what may matter most for foreign MNFs is productivity trends in their Belgian affiliates relative to those of the other entities within their multinational group.

In sum, this paper highlights the twofold nature of MNFs' footlooseness. Not only do they tend to leave the local market more frequently than domestic firms that are comparable in terms of size, productive performance, age, and sector of activity, but MNFs are also less sensitive to the effects of sunk costs as barriers to exit.

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