

ABSTRACT

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Import Penetration and the Demand for Managers: Evidence from India

A couple of recent studies in the international trade literature indicates that globalization plays a significant role in understanding how a firm is organized. We make the first attempt to empirically study one very crucial aspect of this phenomenon: the impact of import penetration on the share of managerial compensation in total labour compensation. In other words, how product market competition affects the firm-level relative demand for managers. Using detailed firm-level data across manufacturing sectors in India spanning over two decades, and exploiting the exogenous nature of India's imports-especially those of intermediate inputs-increase the demand for managers relative to managerial compensation. This leads to an expansion of a firm's vertical structure or increase in the depth of the hierarchy. This pattern is most acute in firms that: (i) export; (ii) are in the upper-half of the firm-size distribution; (iii) belong to the non-durables sector; and (iv) are domestic and privately owned.