Foreigners in management positions: A descriptive analysis for German firms

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Abstract

In Germany, about 5 percent of all employees, working subject to social security contributions, hold a management position. Focussing on foreigners, that proportion is relatively lower, giving concerns of frictions. Relative to natives, differences in qualification and skills, language-related issues, discrimination and glass ceiling may hinder foreigners to achieve management positions. However, we observe foreigners holding management positions. So, the question is, in which characteristics these foreign managers differ from Germans in management positions?

From a firm-management perspective foreigners bring in other skills and qualifications, different problem-solving abilities and approaches to address problems that need to be solved. From a profit-maximisation point of view, foreigners may have less bargaining power and accept lower wages. These arguments might be in favour of hiring foreigners and potential gains of the emerging cultural diversity may be capitalized. On the other hand, language barriers, cultural conflicts etc. might be less beneficial for firms and therefore, foreigners are not hired.

These arguments are not necessarily in favour of holding a management position. In this paper, the focus is set on differences in characteristics of acting managers with respect to being a foreigner or a native. Our underlying hypothesis is build on language barriers, that firms may overcome to promote a foreigner, who speaks both languages – the foreign one and German. Although we cannot measure the power of speech (in German), we hypothesize that if there is an increasing share of workers of a specific nationality in a specific 3-digit occupation the likelihood to observe a manager with the same nationality increases. The manager may act as a language transmitter and therefore mitigates language barriers within the firm.

Because the presence of foreigners is skewed towards metropolitan areas, into specific occupations and industries, we control for vast sorting-related characteristics, individual characteristics, and firm characteristics. The sample considers a Panel of managers from 2012-2023 and we explain of being a foreigner or German manager. Based on a logit model and after controlling for statistical “artefacts” (i.e. with a higher share of foreigners in the firm, the likelihood observing a foreigner in a management position increases) we can support the hypothesis. The foreign managers differ in qualification, i.e. they are on average less qualified, giving additional support for language-related channel. Even more, the evidence suggests that foreigners work more frequently in supervision positions and less frequently in the top management.