

Ownership, Innovation and Productivity in Latvian Small Enterprises: Application of the CDM Model

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Abstract

In this study authors aim at answering the question whether foreign ownership affects productivity in Latvian small enterprises. Specifically, authors are interested whether the link between foreign direct investment, innovation and productivity exists. In addition, authors analyze how different characteristics of foreign owners matter. These properties include geographical belonging of the owner, whether s/he is a minority shareholder or whether s/ he is a multinational enterprise. In our study we apply the CDM model, which is helpful because it provides a good theoretical basis for the relationship between innovation and productivity, and moreover, it also effectively deals with econometric problems. We find that foreign ownership has positive effect on labor productivity, and also has positive impact on innovation via engagement in R&D; however, no relationship between innovation and productivity is found to be present in Latvia. We also spot the evidence that if a foreign owner originates from the USA, Western Europe, Central and Eastern Europe or Nordic Europe region, it is likely to positively influence labor productivity of a host company. At the same time, foreign owners from Commonwealth of Independent States countries do not impact production output. Another finding is that effect of foreign ownership on productivity is much bigger, when the company belongs to a multinational enterprise compared to foreign unational and domestic owned firms. Finally, minority foreign owners are found to have no advantage on productivity compared to fully domestic owned firms.

Keywords: foreign ownership, innovation, productivity, the CDM model, Latvia