Employment, Productivity, and Business Groups: Evidence from Chaebols in Korea *

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Abstract

Using confidential Korean firm-level data, this paper investigates the employment behavior of business groups in Korea, also known as Chaebols. First, I document significantly different hiring rules of Chaebol firms in two ways. i) Chaebol firms are much less responsive in employment to firm-level total factor productivity shocks than non-Chaebol firms. ii) Chaebol firms do not show asymmetric responses to positive and negative shocks whereas non-Chaebol firms exhibit significantly asymmetric hiring rules, responding more strongly to negative shocks. Also, at the group-level, I provide evidence for spillover effects and internal labor markets for Chaebols given the heterogeneous roles of firms within-group: Central firms act as pools for internal labor markets at the group-level, responding to the shocks of other firms in the same group. 

Next, I propose a new model of business groups that can explain key empirical facts about hiring rules of business groups and show that firing frictions at the group-level can explain the slow employment response of business groups and the labor hoarding of the Central firms, suggesting that such policies for job-security may cause substantial economy-wide efficiency losses.

Keywords: Business groups; Chaebols; internal labor markets; firm dynamics; productivity

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