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August 2010
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ABSTRACT

The Exporter Productivity Premium along the Productivity Distribution: First Evidence from a Quantile Regression Approach for Fixed Effects Panel Data Models

An emerging literature on international activities of heterogeneous firms documents that exporting firms are more productive than firms that only sell on the national market. This positive exporter productivity premium shows up in a large number of empirical studies after controlling for observed and unobserved firm characteristics in regression models including firm fixed effects. These studies test for a difference in productivity between exporters and non-exporters at the conditional mean of the productivity distribution. However, if firms are heterogeneous, it is possible that the size of the premium varies over the productivity distribution. In this paper we apply a newly developed estimator for fixed-effects quantile regression models to estimate the exporter productivity premium at quantiles of the productivity distribution for manufacturing enterprises in Germany, one of the leading actors in the world market for goods. We show that the premium decreases over the quantiles – a dimension of firm heterogeneity that cannot be detected through mean regression.

JEL Classification: F14, C21, C23

Keywords: exporter productivity premium, quantile regression, fixed effects

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* All computations were done in the research data centre of the Statistical Office in Berlin. The data used are confidential but not exclusive; information how to access the data is provided in Zühlke et al. (2004). To facilitate replication and extensions Stata code for quantile regression for fixed effects panel data models is available from the first author, and the Stata do-files used to compute the empirical results in the application are available from the second author on request.
1. Motivation

Heterogeneous firms are at the heart of both the New New International Trade Theory\(^1\) and the Micro-econometrics of International Firm Activities.\(^2\) The implications of firm heterogeneity for empirical analyses, however, are not always fully taken into account. Usually, conditional means for different groups of firms – say, exporters and firms selling on the national market only – are the basis for comparisons. In almost all countries and periods examined exporters are significantly more productive than non-exporters on average (see Wagner 2007). This fact is documented by performing a test for the statistical significance of the estimated regression coefficient of a dummy-variable indicating the exporter status of a firm in an empirical model that controls for industry affiliation and firm size (i.e. the difference in the conditional mean of productivity).

As Moshe Buchinsky (1994: 453) states, “’On the average’ has never been a satisfactory statement with which to conclude a study on heterogeneous populations.” If we acknowledge that firms are heterogeneous, we have reasons to suspect that the conditional difference in productivity between exporting and non-exporting firms does not need to be the same for all firms. For example, it might be the case that the productivity difference between exporters and non-exporters of the same size and from the same industry is higher for firms at the lower end of the productivity distribution. If we regress the log of productivity on an exporter dummy variable and a set of control variables using ordinary least squares (OLS), there is no

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\(^1\) The canonical paper in this literature is Melitz (2003) who explicitly motivates his theoretical model by referring to findings in the micro-econometric literature; see Helpman (2006) for a survey.

room for firm heterogeneity of this kind. OLS estimates the average effect over the entire distribution. This summary statistic, however, may not be representative of the impact at any part of the outcome distribution.

Instead, it is potentially interesting to estimate the size of the exporter premium at different points of the productivity distribution using quantile estimation. Canonical references for a discussion of technical details of quantile regression are the pioneering paper by Koenker and Bassett (1978), the survey by Buchinsky (1998) and the monograph by Koenker (2005), while Koenker and Hallock (2001) provide a non-technical introduction. In contrast to OLS (that gives information about the effects of the regressors at the conditional mean of the dependent variable only) quantile regression can provide parameter estimates at different quantiles. Therefore, it gives information on heterogeneity in the effect of independent variables on the dependent variable. The estimated regression coefficients can be interpreted as the partial derivative of the conditional quantile of the dependent variable (here: productivity) with respect to a particular regressor (e.g., being an exporter or not), i.e. the marginal change in productivity at the $k^{th}$ conditional quantile due to a change in exporter status. For each quantile, it can be shown whether the effect of a particular independent variable is positive or negative, and how large this effect is compared to other quantiles. This provides information about heterogeneity in plant behavior. Note that quantile regression is not the same as applying OLS to subsets of the data produced by dividing the complete data set into different percentiles of the dependent variable. This technique would introduce sample selection bias.
Estimation results for the exporter productivity premium from quantile regressions\(^3\) based on data for a representative sample of manufacturing establishments from one German federal state (Lower Saxony) for 1995 are reported in Wagner (2010). The estimated exporter premium is statistically different from zero, positive, and large from an economic point of view for all quantiles. The premium varies across the different quantiles, and there seems to be a U-shaped pattern, showing a higher premium at both ends of the conditional productivity distribution than at the median. According to the results of tests for coefficient equality between pairwise quantiles and across all quantiles reported, however, these differences between the estimated exporter premia are never statistically different from zero.

The bottom line is that the relationship between exporting and labour productivity is similar throughout the conditional productivity distribution. Bellone, Guillou and Nesta (2010) report a similar finding for a sample of firms from France. Obviously, this does not have to be the case with other data sets from other times or other countries. For example, Yasar, Nelson and Rejesus (2006) find that the exporter productivity premium increases as one moves from the lower tail to the upper tail of the distribution for Turkish firm level data. Serti and Tomasi (2009) report that the respective coefficients are much larger at the lower quantiles, especially for firms selling goods to European and low income countries.

We have discussed the consequences of observed firm heterogeneity for micro-econometric studies of international firm activities. Firm heterogeneity, however, might be caused by factors that are not observed by the researcher. A case

in point with regard to the exporter productivity premium is management quality. Although management quality has been considered an important source of performance differences between firms for a very long time – Syverson (2010, p. 14) mentions a study published in 1887 that made this point – empirical evidence is scarce due to data limitations. As Syverson (2010, p. 14) puts it, “The identity, much less the characteristics, practices, or time allocation of individual managers are rarely known. Furthermore, managerial inputs can be very abstract. It’s not just time allocation that matters, but what the manager does with their time, like how they incentivize workers or deal with suppliers.” A recent study by Bloom and Van Reenen (2010) relates management practices to productivity and shows that firms that export (but do not produce) overseas are better-managed than domestic non-exporters, but are worse-managed than multinationals.

In the data sets used to empirically investigate international firm activities variables that measure management quality are missing. This would not pose a big problem if management quality were uncorrelated with the other variables included in the empirical model (e.g., exporter status). Of course it would not be possible to investigate the role of management quality for productivity differences between firms empirically, but the estimated coefficient for the exporter dummy variable would be an unbiased estimate of the exporter productivity premium. However, one would not expect that management quality is uncorrelated with either exporter status or other variables like firm size. Not controlling for management quality then leads to biased estimates of the exporter premium.

A standard solution for this problem that is widely used in the literature on the micro-econometrics of international firm activities is conditioning on firm-specific fixed
effects. Using pooled cross-section time-series data for firms and including fixed firm effects in the empirical model controls for time invariant unobserved firm heterogeneity. The coefficients for the time variant variables can be estimated without any bias caused by the non-inclusion of the unobserved variables that are correlated with these included variables. A case in point is the paper by the International Study Group on Exports and Productivity (ISGEP) (2008). In Table 4, exporter productivity premia are reported based on empirical models with and without fixed effects. If fixed firm effects are added to control for time invariant unobserved heterogeneity, the point estimates of the exporter productivity premia are much smaller compared to the results based on pooled data only. Thus, unobserved firm heterogeneity does matter.

Is it possible to tackle the two problems – different effects at different quantiles of the distribution of a variable under consideration, and unobserved heterogeneity - simultaneously? A small literature suggests different estimation techniques. For motivation purposes, we model the traditional, cross-sectional quantile estimator (introduced by Koenker and Bassett (1978)) as estimating equations of the form:

\[ y_i = x_i' \beta \alpha_i + \epsilon_i \]

4 As an aside, note that although in the theoretical models from the New New International Trade Theory productivity differentials between firms are modeled as the results of a random draw from a productivity distribution (see e.g. Melitz 2003) it is not appropriate to use random effects models instead of fixed effects models in the empirical investigations. Random effects models assume that the observed variables in the empirical model and the unobserved variables not included in the model are uncorrelated – an assumption that makes no sense here.
where the coefficient of interest ($\beta$) is a function of the total residual, $(\alpha + \varepsilon)$. In a cross-sectional format, it is unnecessary to distinguish $\alpha$ and $\varepsilon$, but this framework will be helpful later.

With panel data, we want to condition on fixed effects for the purposes of identification but, typically, we do not want to change the interpretation of the coefficients. Many quantile panel data estimators, however, do not estimate parameters that can be interpreted in the same manner as cross-sectional estimates. For example, Koenker (2004) suggests estimating a fixed effect which is constant for all quantiles. The implicit equation of interest can be modelled as:

$$y_{it} = \alpha_i + x_{it} \cdot \beta(\varepsilon_{it})$$

Notice that the coefficient of interest now only varies based on $\varepsilon$, not the total residual. The underlying equation has changed. Similarly, Harding and Lamarche (2009) introduce an IV version for the estimation of equations such as:

$$y_{it} = \alpha_i(\varepsilon_{it}) + x_{it} \cdot \beta(\varepsilon_{it})$$

Again, the coefficient of interest is solely a function of $\varepsilon$. These estimators are useful in situations where we want to define the quantiles by the firm’s productivity relative to its fixed level of productivity. However, we are primarily interested in the effect of the covariates on high productivity firms and, separately, low productivity firms. For illustrative purposes, assume that $\alpha$ is known and supplied to the econometrician. The Koenker (2004) estimator is equivalent to a traditional quantile regression of $(y - \alpha)$ on $x$. In other words, the fixed effect has been differenced out.

This paper uses an unconditional quantile regression estimator for panel data introduced by Powell (2009). The estimator conditions on fixed effects for estimation
purposes, but the resulting estimates can be interpreted in the same manner as traditional cross-sectional quantile estimates. The implicit underlying equation is:
\[ y_{it} = x_{it}' \beta(\alpha_i + \varepsilon_{it}) \]

Notice that this is equivalent to the cross-sectional equation \( y_i = x_i' \beta(\alpha_i + \varepsilon_i) \) since the quantiles are defined by the “total residual.” In our context, this is important. Differencing out a fixed effect “loses” each firm’s placement in the cross-sectional distribution.

2. Estimation

Powell (2009) discusses the estimation method in detail. The estimator conditions on fixed effects, but the quantiles themselves are not defined by the fixed effects. The Structural Quantile Function (SQF) is
\[ S_y(\tau | x) = x' \beta(\tau) \]

The SQF defines the quantile of the latent outcome variable \( y_{ud} = x'u' \beta(u) \) for a fixed \( x \) and a randomly selected \( u \sim U(0,1) \).

The estimator uses two moment conditions:

1) \[ E \left\{ \frac{1}{N} \sum_t 1(y_{it} - x_{it}' \beta(\tau) \leq 0) \right\} = \tau \quad \text{for all} \ t. \]

2) \[ E \left\{ \sum_j \sum_s \sum_{t \neq s} (x_{it} - x_{is}) [1(y_{it} - x_{it}' \beta(\tau) \leq 0) - 1(y_{is} - x_{is}' \beta(\tau) \leq 0)] \right\} = 0 \]

The first condition defines the quantile. This equation implicitly assumes the inclusion of year fixed effects by forcing the condition to hold for all \ t. In our context,
we will actually include interactions based on firm size and year. Thus, the “high productivity” firms are firms with high productivity given their firm size and year.

The second condition makes within-group pairwise comparisons, implicitly conditioning on the firm fixed effect. Thus, identification originates from changes in $x$ for the firm. Notice that $\alpha$ is never estimated or “differenced out.”

Practically, we implement the Powell (2009) estimator by grid-searching over a range of values. Standard errors are derived from bootstrapping.

3. Data

The empirical investigation uses data from an unbalanced panel of enterprises that is built from cross section data collected in regular surveys of establishments by the Statistical Offices of the German federal states. Establishment data were aggregated to the enterprise level. The surveys cover all establishments from manufacturing industries that employ at least twenty persons in the local production unit or in the company that owns the unit. Participation of firms in the survey is mandated in official statistics law.\(^5\)

In this data set, export refers to the amount of sales to a customer in a foreign country plus sales to a German export trading company; indirect exports (for example, tires produced in a plant in Germany that are delivered to a German manufacturer of cars who exports some of his products) are not covered by this definition. Given that the East German economy still differs in many respects, and

\(^5\) For a description of the data see Malchin and Voshage (2009). Note that the micro level data are strictly confidential and for use inside the Statistical Office only, but not exclusive. Information how to access the data is given in Zühlke et al. (2004).
especially with regard to exporting, from the West German economy, this study looks at West German and East German manufacturing enterprises separately.\(^6\)

*Productivity* is measured as total sales per employee, i.e. labour productivity. More appropriate measures of productivity such as value added per employee (or per hour worked), or total factor productivity, cannot be computed because of a lack of information on hours worked, value added, and the capital stock\(^7\) in the surveys. Controlling for firm fixed effects, however, can be expected to absorb much of the differences in the degree of vertical integration and capital intensity.\(^8\)

### 4. Productivity premia of exporters along the productivity distribution:

**Results from a quantile regression approach with fixed enterprise effects**

In our empirical investigation we look for differences in the so-called exporter premia - the *ceteris paribus* percentage difference of labor productivity between exporters and non-exporters - between enterprises from different quantiles of the productivity distribution. We estimate the following specification to get the mean effect:

\[
\ln LP_{jt} = \alpha_i + \gamma_{jt} + \beta E_{jt} + \eta
\]

\(^6\) For a discussion of the differences in exporting between West German and East German manufacturing firms see Wagner (2008).

\(^7\) The survey has information about investment that might be used to approximate the capital stock. A close inspection of the investment data, however, reveals that many firms report no or only a very small amount of investment in many years, while others report huge values in one year. Any attempt to compute a capital stock measure based on these data would result in a proxy that seems to be useless.

\(^8\) Note that Bartelsman and Doms (2000, p. 575) point to the fact that heterogeneity in labor productivity has been found to be accompanied by similar heterogeneity in total factor productivity in the reviewed research where both concepts are measured. Furthermore, Foster, Haltiwanger and Syverson (2008) show that productivity measures that use sales (i.e. quantities multiplied by prices) and measures that use quantities only are highly positively correlated.
where $LP_{ijt}$ is the labor productivity of firm $i$ in firm size group $j$ at time $t$. $E$ is a dummy variable indicating whether or not an enterprise is an exporter.\footnote{Note that the regression equation specified in (1) is not meant to be an empirical model to explain labor productivity at the firm level; the data set at hand here is not rich enough for such an exercise. Equation (1) is just a vehicle to test for, and estimate the size of, exporter premia controlling for firm size, time, and unobserved fixed firm effects. Furthermore, note that productivity differences at the firm level are notoriously difficult to explain empirically. “At the micro level, productivity remains very much a measure of our ignorance.” (Bartelsman and Doms 2000, p. 586)} We include firm-specific fixed effects plus interactions based on firm size and year.

Since we are also interested in how the exporter productivity premia differ throughout the distribution, we estimate the equivalent SQF using the Powell (2009) estimator:

$$S_{LP}(\tau \mid E) = \gamma_\beta(\tau) + \beta(\tau)E$$

Again, we include interactions based on firm size and year so the quantiles refer to the placement in the distribution for a given firm size and year. Results\footnote{All computations were done with Stata Release 11 (see Stata Corp 2009). For West Germany a random sample of 7,500 enterprises (from some 35,000) had to be drawn due to hardware constraints inside the research data centre; for East Germany information on all enterprises could be used. The do-files took 15 days each on a dedicated 64bit machine.} are reported in Table 1.
Table 1: Exporter Productivity Premia in German Manufacturing
Quantile Regression Results, 1995-2006

<table>
<thead>
<tr>
<th>Quantile</th>
<th>Effect of “Exporter” West Germany</th>
<th>Effect of “Exporter” East Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>0.145*** (0.026)</td>
<td>0.145*** (0.011)</td>
</tr>
<tr>
<td>20</td>
<td>0.060*** (0.013)</td>
<td>0.080*** (0.013)</td>
</tr>
<tr>
<td>30</td>
<td>0.050*** (0.013)</td>
<td>0.060*** (0.012)</td>
</tr>
<tr>
<td>40</td>
<td>0.040*** (0.014)</td>
<td>0.050*** (0.010)</td>
</tr>
<tr>
<td>50</td>
<td>0.025** (0.012)</td>
<td>0.045*** (0.010)</td>
</tr>
<tr>
<td>60</td>
<td>0.035*** (0.013)</td>
<td>0.050*** (0.010)</td>
</tr>
<tr>
<td>70</td>
<td>0.025 (0.016)</td>
<td>0.055*** (0.014)</td>
</tr>
<tr>
<td>80</td>
<td>0.015 (0.020)</td>
<td>0.075*** (0.019)</td>
</tr>
<tr>
<td>90</td>
<td>0.050 (0.034)</td>
<td>0.025 (0.021)</td>
</tr>
<tr>
<td>N</td>
<td>65,052</td>
<td>57,610</td>
</tr>
</tbody>
</table>

Significance Levels: * 10%, ** 5%, *** 1%. Standard errors are bootstrapped and clustered by firm. Specifications include year*size fixed effects.

Results for West Germany show that the exporter productivity premium declines over the productivity distribution. The premium is highly statistically significant, and very large from an economic point of view, at the lower end. The estimated coefficient for the ten percent quantile shows a productivity premium of exporting over non-exporting firms of 15.6 percent. The premium is statistically significantly different from zero at a conventional level in the first two-thirds of the productivity distribution only. This clearly demonstrates that the premium is not constant among enterprises from different parts of the productivity distribution. The estimated coefficient from an OLS fixed-effects regression using the same empirical model and the same sample of enterprises is 0.118 (which translates to a productivity

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11 The percentage value is computed from the estimated regression coefficient β by (exp(β)-1)*100.
premium of 12.5 percent) – this premium at the conditional mean, therefore, is much less informative with regard to the relation between productivity and exporting than the results for the various quantiles reported in Table 1.

Results for East Germany show a higher premium at the lower end of the productivity distribution, too. The estimated coefficient for the ten percent quantile indicates a productivity premium of exporting over non-exporting firms of 15.6 percent, identical to the results for West Germany. Contrary to what we find for West Germany, in East Germany the exporter productivity premium is statistically different from zero at a conventional error level over nearly the complete productivity distribution, and the estimated premia do not differ significantly between the 20 percent quantile and the 80 percent quantile. The estimated coefficient from an OLS fixed-effects regression using the same empirical model and the same sample of enterprises is 0.120 (which translates to a productivity premium of 12.7 percent) – like in the case of West Germany this premium at the conditional mean is much less informative with regard to the relation between productivity and exporting than the results for the various quantiles.

Note that the point estimate of the exporter productivity premium at the conditional mean is virtually identical for West and East Germany, and the difference between the two estimated premia is not statistically significant.\textsuperscript{12} Looking at the conditional mean only, therefore, leads to the wrong conclusion that the relation between productivity and exports is identical in enterprises from West and East Germany when unobserved time invariant firm heterogeneity is controlled for by fixed

\textsuperscript{12} The 95\% confidence interval for the estimated coefficient is [0.089, 0.147] for West Germany and [0.099, 0.141] for East Germany.
enterprise effects – a statement that is clearly demonstrated to be wrong by applying quantile regression with fixed effects.

5. Concluding remarks

One of the stylized facts from the emerging literature on international activities of heterogeneous firms is the existence of a positive exporter productivity premium - exporting firms are more productive than firms that sell on the national market only. A large number of empirical studies document this premium after controlling for observed and unobserved firm characteristics in regression models including fixed firm effects. These studies test for a difference in productivity between exporters and non-exporters at the conditional mean of the productivity distribution. However, if firms are heterogeneous, there is no reason to assume that this productivity premium is the same for all firms. It might well be the case that the size of the premium varies over the productivity distribution. In this paper we use a newly developed estimator for fixed-effects quantile regression models to estimate the exporter productivity premium at quantiles of the productivity distribution for manufacturing enterprises in Germany, one of the leading actors in the world market for goods. We find that the premium decreases over the quantiles, and that the pattern is different for firms from East and West Germany. This dimension of firm heterogeneity remains undetected if only the estimates for the premium at the conditional mean of the productivity distribution are looked at. Our results demonstrate that quantile fixed effects regression is a powerful method for the empirical analysis of heterogeneous firms that should be added to the box of tools of researchers active in the field of micro-econometrics of international firm activities.
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