GK QuickBrief

April 2022

Topic: GDPR - How has it impacted firms?

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Here's our take on this article published on March 10th in VoxEU & CEPR by Carl Benedikt Frey – (Director, Future of Work Oxford Martin School Oxford University) and Giorgio President – (Postdoctoral researcher, Oxford Martin School) highlighting the impact on firm performance of GDPR. Read the full article here

The Top Line

- The EU implemented the General Data Protection Regulation (GDPR) in May 2018, primarily to give individuals better control over their data, making it more difficult and expensive for firms to commercialise them.
- Not a lot is known about how GDPR has impacted the economy. There is little information on compliance costs and effects on firm performance beyond e-commerce.
- In the view of the authors, understanding the effects of GDPR is particularly crucial as it is fast becoming **a global blueprint for regulating data privacy**.
- All firms that target EU consumers must comply with the regulations, regardless of where they are incorporated. Several countries, including Brazil, Canada, and South Korea, are already in the process of passing similar data protection laws.

The authors conclude that the adverse performance impact of GDPR on both profits and sales have been significant for companies operating in the EU, but the main effect has occurred through rising compliance costs and NOT reduced sales.

Key Impacts?

GDPR could affect firm performance in two ways.

1. Because companies must use GDPR-compliant processes and technologies, it creates costs and reduces profits as companies either must develop or buy IT systems that support these requirements.
2. The regulation may adversely affect e-commerce and thus lower sales because GDPR prohibits websites from sharing user data with third parties without the consent of each user.
    - This makes data collection more expensive
    - It could reduce companies' ability to extract personal data
    - users might incur a cost as well when prompted to give consent to use their data

Costs: Direct Impacts on Profit

- The authors' research found that companies targeting EU markets saw an 8% reduction in profits and a 2% decrease in sales.
- They say that other studies that focused on online outcomes or proxies of sales, provide an incomplete picture: the adverse effects on firms have primarily been through 'surging compliance costs'.

Influence Effects: Smaller firms disadvantaged disproportionately

- Smaller companies are at more of a disadvantage as large companies appear to have more technical and financial resources to comply with regulations, invest more in lobbying and might be better placed to obtain consent for personal data processing from individual consumers.
    - Facebook has reportedly hired some 1,000 engineers, managers, and lawyers globally in response to the new regulation
- The authors suggest that BigTechs have fared relatively well in the age of GDPR.
    - They find no significant impacts on large tech companies, like Facebook, Apple and Google, on either profits or sales.
    - At the same time, among small IT companies, the negative profit impact is double the average effect across their full sample.
    - BigTechs have seemingly taken market share from their smaller competitors, offsetting the compliance costs associated with GDPR.
    - Overall, the main burdens of GDPR have fallen on smaller companies.

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The Small Print

The authors point out some factors that could affect their findings:

- Some of the adverse impacts documented may be temporary adjustment costs, which could taper off in the future.
- If GDPR is widely adopted and becomes a global standard, companies targeting EU residents will gradually become less disadvantaged.
- Their estimates do not capture the aggregate welfare effects of the regulation since **potential benefits to citizens concerned with data protection are unaccounted for.**