# The impact of MNEs and FDI on aspects of working conditions as contained in the ILO 1977 Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy

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#### Abstract

This article reviews the literature on the impact of multinational enterprises (MNEs) and foreign direct investment (FDI) on employment and identifies the significance of this research, and where further research is required. It proposes that further research is needed, in particular, in the area of EEO and pay equity; the comparative effect on emerging economies, particularly the demand for skills and the impact on skills or training and knowledge transfer; minimum age of work and child labour; and the impact on industrial relations in general.

#### Introduction

This article is based upon a report commissioned by the ILO on the impact of multinational enterprises (MNEs) and foreign direct investment (FDI) on aspects of working conditions as included in the 1977 Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy<sup>1</sup>. The article takes the form of a review of existing literature from 2007 up until the end of 2010. Sources that were relied upon for information on FDI flows and incidences and characteristics of MNEs were the websites of the OECD and UNCTAD, although other organisations' reports were also consulted i.e. the World Bank, IMF and World Trade Organisation websites. The sources for academic research were through two electronic databases: Google Scholar and Business Source Premier (EBSCO). The terms MNEs, multinationals, TNCs, MNCs, FDI and export zones were all used as search terms, reflecting the range of terms used in the literature, along with the key terms associated with each area of the Declaration. The review is limited by the time period covered, however, this period is one in which increasing interest in MNEs has occurred and, therefore, the review does illustrate current research interests in the field as well as areas that need further development.

The Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy was introduced ahead of its time, well before current discussion of corporate responsibility. In part, because of this, it was controversial and took about 10 years to be formed and agreed on. The aim of the Declaration was to to encourage positive contribution of MNEs to economic and social progress through cooperation with tripartite partners. As detailed in Figure 1, the 1977 Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy has four main sections of Employment, Training, Conditions of Work and Life, and Industrial Relations.

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Table 1. Key areas of the 1977 Tripartite Declaration of Principles concerning MNEs and Social Policy

AREA	CONVENTION OR RECOMMENDATION
Employment (paras. 13-28)	
	Employment promotion
	Employment promotion (Convention 122, Recommendation 122 re Employment Policy)
	Equality of opportunity & employment (C111 and R111 Discrimination in Respect of Employment and Occupation; C100 and R90 Equal Remuneration for Men and Women Workers for Work of Equal Value)  Security of employment
	(R119 Termination of Employment at Initiative of the Employer)
Training (para. 29-32)	(C142 and R150 Vocational Guidance and Vocational Training in Development of Human Resources)
Conditions of Work and Life (paras. 33-40)	Wages, benefits and conditions of work  (R116 re Reduction of Hours of Work; C110 and R110 Conditions of Employment of Plantation Workers; R115 Workers' Housing; R69 Medical Care; C130 and R 134 Medical Care and Sickness Benefits)  Minimum age (C138 Minimum Age for Admission to Employment and Work and C182 Elimination of Worst Forms of Child Labour)
	Safety and health (Cs 115, 119, 136, 139, and Rs 114, 118, 144, 147 re specific hazards eg. guarding machinery, ionising radiation, benzene, cancer)
Industrial Relations (paras. 41-59)	Freedom of association and the right to organise (C87 Freedom of Association and Protection of Right to Organise; C98 Right to Organise and Collective Bargaining
	Collective bargaining (C98; C135 Protection and Facilities to be Afforded Workers' Representatives in Undertaking; C129 Communications between Management and Workers within the Undertaking)
	Consultation (R94 Consultation and Cooperation between Employers and Workers; R129 Communications within the Undertaking)
	Settlement of disputes and examination of grievances (R130 Examination of grievances within Undertaking; R92 Voluntary Conciliation and Arbitration)

Source: 1977 ILO Tripartite Declaration of Principles concerning MNEs and Social Policy, 1977, Geneva (ILO, 1977).

MNE actions and FDI flows are playing increasingly important roles in employment worldwide. Since the introduction of the Declaration "the numbers of multinational corporations…has increased nearly eightfold from 11,000 in 1976 to 79,000 in 2007 and foreign direct investment (FDI) stocks almost threefold" (Royle, 2010: 249). MNEs employ about 77 million people globally, accounting for about three percent of the global workforce (UNCTAD, 2009a; OECD, 2009b).

Most of the FDI in the OECD countries peaked in 2007, with developed countries being the most impacted by the economic crisis. MNEs are further shifting their focus to developing countries for

outgoing FDI. Inward and outward FDI is changing, with India and China becoming more significant countries. It has been predicted that China will come out of the current global financial crisis a more significant country in the global economy, and that its outward FDI flow will soon exceed inward FDI (OECD, 2009a). These statistics are particularly interesting in light of the information in the following sections that indicate that MNEs operating in emerging economies such as China and India commonly base their working conditions on the host country, which often has lower regulated conditions than the country of origin. It will be of significance for future trends as the importance of MNEs from these same emerging economies grows. That is, emerging economies influence the lowering of working conditions in MNEs already, as host countries, and this influence might become stronger as they increasingly become the *home* countries of MNEs. Research, previously, has associated FDI location decisions with weaker regulatory environments, however, recent research finds that "neither comparatively high labour costs nor strong unions and formalised systems of employee workplace representation are negatively related to FDI" (Brandl, Strohmer and Traxler, 2010: 635).

MNEs are characterised by increasing diversity of national origin and industry sector of operations, and also by considerable concentration in host countries of operations and in financial assets. There has been a recent trend towards activity in the services sector among multinational enterprises, particularly in telecommunications, electricity and water services. In terms of location intensity, the United Kingdom is the preferred location, but China, Brazil and Mexico are also in the top 20 countries, with the remaining top 20 countries representing developed economies. The geographical spread of the top 100 MNEs is not confined to developed economies, with MNEs from China, Malaysia, Korea, Mexico and Singapore in the top 100. Emerging economy top 100 MNEs, particularly, are responsible for increasing employment (UNCTAD, 2008).

Research into MNEs and FDI and their effect on employment tends to be concentrated in large economies (Collings, Gunnigle and Morley, 2008) and/or OECD countries, which poses obvious limitations. While more research is being undertaken in developing country MNEs, there is little on the least developed countries (Cuervo-Cazurra and Genc, 2008). The research is also criticised for a lack of representativeness, with bias towards "largest, most global, well-known, US based manufacturing firms" (Lavelle, 2008: 51), but also with small samples and only partial coverage of MNEs. An obvious gap in the literature is the increasing role of 'macro markets' in FDI location and the ensuing effect on employment (Brandl et al., 2010). This article reviews the literature on the impact of MNEs and FDI on employment and identifies the importance of this research, and where further research is required.

## **Impact on employment**

The Declaration refers to employment growth, equality of opportunity and treatment, and job security and turnover. Generally, there is not substantial research in these areas but the existing research indicates that MNEs do impact on employment growth in host and home countries. However, causality has not been established in the literature, particularly with reference to job security and turnover. There is some evidence that, in the foreign affiliates of MNEs from the USA, Germany and Japan (over the period of 1980-2003), the "ratio of foreign to domestic employment is typically higher in manufacturing industries than in service sectors" (Molnar, Pain and Taglioni, 2008: 101), and that foreign employment growth "is positively associated with domestic employment growth" in the USA (Molnar et al., 2008: 104). Until 2008, increased FDI was associated with an increase in the number of jobs in the foreign affiliates of MNEs. However, for some countries and industries, there is evidence that "outward investment has a significant negative association with the domestic demand for labour after controlling for domestic output and real

wages" (Molnar et al., 2008: 111). On the other hand, some research on Swedish MNEs indicates a positive impact, from increased competition through increased demand for skilled labour, associated with a high presence of foreign owned MNEs in the same industry (Bandick and Hansson, 2009).

The effect of MNEs on the equality of opportunity and treatment is especially under-researched. What is known is that increased diversity is also viewed as one way of expanding the talent pool for employers and boosting employees' motivation and commitment (OECD, 2009b). OECD-European MNEs have the highest proportion of 'equal opportunities systems' (work-life balance indicators such as flexible working hours, job sharing, child care arrangements or statistics showing employee demographics) at 82 percent compared to 16 percent in MNEs from the non-OECD/emerging markets (OECD, 2009b). However, this may change as perceived skills shortages in Asia have increased awareness of measures, such as work-life balance policy, as a tool for widening the pool of employees from which to recruit (De Cieri and Bardoel, 2009). In terms of equal treatment, some studies have shown that the MNEs in the UK that employ predominantly women are less likely to pay above the median, in contrast to MNEs, in general, in the UK, which often pay above the median rate (Edwards, Edwards, Ferner, Marginson and Tregaskis, 2007). Some research points to low wages and poor conditions of workers in export processing zones, of whom 90 percent are female (Royle, 2010).

Research into job security in relation to MNEs is also limited. In an OECD survey of 2000 publicly listed companies, less than 10 percent had clear evidence of job security systems. This was shown to be linked to legislative requirements of the host country, and also to the level of union representation in the company (OECD, 2009b). Turnover has been shown to be higher in MNEs than in domestically owned firms (Brown, 2007; UNCTAD, 2009b) as MNEs tend to respond more quickly to changes in labour and financial markets, through cutting back on numbers of employees, as indicated by reports that labour costs may be cut in response to the global financial crisis (UNCTAD, 2009b). Some research has also suggested that with increasing offshore production, labour demand becomes more elastic and the risk of job losses greater, but there is insufficient evidence for this to be a general observation (Crino, 2009); trends are likely to vary across different sectors and occupations. Related practices, such as outsourcing and subcontracting, contribute to a trend of job insecurity (Royle, 2010). Global Framework Agreements (GFAs) between MNEs and Global Union Federations often include clauses on restructuring of the company, as can be seen in discussion later in this report.

## **Training**

Generally, there is limited, clear evidence regarding training systems in MNEs (OECD, 2009b). Research that has been undertaken has largely focused on cultural and language training for expatriates rather than on training for host country nationals (HCNs) (Zheng, Hyland and Soosay, 2007; Vo, 2009). Some issues that arise are whether MNEs increase the skill level of the host country and whether the demand for skills decreases in the country of origin with increased internationalisation. The pattern of skill development across developed and developing countries is also of concern, as there is some evidence that MNEs locate low-skilled operations in countries that have large numbers of low-skilled low wage workers, and consequently do not invest in skill development for these workers. On a macro level, research has indicated that FDI will only enhance skill development in countries that have a relatively high level of skills to begin with (Te Velde and Xenogiani, 2007). When foreign affiliates operate in high income countries, this also has a negative impact on the demand for high skilled workers in the country of origin (Elia, Mariotti

and Piscitello, 2009). This situation potentially leads to international skills inequalities (Te Velde and Xenogiani, 2007).

In terms of the spread of investment, a recent study indicated that training expenditure, particularly in Asian countries, is predominantly in service industries and targeted at managerial and professional employees (Zheng et al., 2007). There was also some evidence that non-Asian owned MNEs invested more in training than Asian owned MNEs. A study of MNEs in Vietnam found different approaches taken by US and Japanese MNEs. US MNEs had a higher tendency to appoint Vietnamese nationals in managerial positions than Japanese MNEs. Furthermore, the US MNEs then gave Vietnamese managers training and allowed advancement to corporate level in both local and global spheres whereas Japanese MNEs allowed host country nationals to advance to "at least two levels down from the top" (Vo, 2009: 1415) and had fewer training opportunities. Research into global talent management indicates that, contrary to other aspects of work, country of origin is not a significant factor, and that sector may impact more; for example traditional manufacturing MNEs are more likely to have global talent management than high-tech manufacturing MNEs (McDonnell, Lamare, Gunnigle and Lavelle, 2010).

There is some evidence that education levels may be improved by MNEs (Paus and Gallagher, 2008; Zhuang, 2008). However, there are few studies that systematically investigate the interaction between MNEs and education and training, both within the subsidiary and for the host country economy. This is significant because it appears that, due to the heterogeneity of the countries, broad survey data does not indicate statistically significant connections between FDI or MNEs and skills, training or education (Zhuang, 2008).

### Conditions of work and life

Conditions of work and life covered by the 1977 Declaration include wages, benefits and conditions of work; minimum working age; and safety and health. There is little information, in general, on the effects MNEs or FDIs have on conditions of work and life. In a recent survey of almost 2,000 companies, including some from emerging markets, the number of companies meeting ILO MNE Declaration standards varied according to region and sector. Health and safety standards are met by more companies in sectors that have high risks in terms of health and safety. There is also a link between the size of the company and the likelihood of them having policy that is consistent with the Declaration. This may be due to public profile and consequent pressure from investors, trade unions, NGOs and consumers (OECD, 2009b).

MNEs generally pay better wages than domestic firms to employees (Almeida, 2007; Brown, 2007). An OECD report places the difference in wages at 40 percent higher in foreign MNEs and 15 percent higher in domestic MNEs than in local firms. The differences between average wages in local firms and MNEs tend to be greater in developing countries (OECD, 2008). However, working conditions in MNEs are not always better than in domestic firms, and in particular, working hours have been found to be longer in foreign-owned firms (OECD, 2009b). With respect to labour standards and conditions of work in general, MNEs have been shown generally to comply with minimum legal standards in the host country, and not to provide higher standards (Chinen, Wang and Wang, 2008). Indeed, evidence indicates that MNEs usually do not export their labour practices to foreign subsidiaries (OECD, 2009b). Large MNEs concerned with their public reputation and brand have increasingly introduced voluntary codes of conduct (Edwards, 2011). These often include minimum labour standards and extend the requirement of these standards to their suppliers. Their content is similar to that of GFAs, but the codes are decided upon unilaterally by the MNE. However, research suggests that despite these codes of conduct, low labour standards

in supplier firms remain a concern (OECD, 2008). Further research on MNEs and voluntary codes are clustered around global supply chains (Robinson, 2010).

There is less information on minimum working age and child labour in relation to MNEs and FDI (Chinen et al., 2008). However, contrary to general opinion, studies indicate that FDI does not increase the demand for child labour (Iram and Fatima, 2008) and is associated with lower incidence of child labour (Neumayer and De Soysa, 2005) and indeed, that child labour deters inward FDI (Brown, 2007). Many GFAs contain clauses on minimum age and child labour, although, as is explained further on in this report, the number of GFAs is still relatively small, and there may be difficulties in enforcement of the agreements. One explanation for FDI being linked with decreased child labour is that child labour has a negative effect on human capital stock as it reduces human capital formation. Human capital stock has a positive effect on FDI, so where child labour incidence is higher and human capital stock lower, it would follow that FDI will also be lower (Brown, 2007).

Safety and health are considered important in terms of protecting the MNE's reputation and avoiding fatalities and regulatory fines (OECD, 2009b). As with all aspects of employment in MNEs, country of origin effect is apparent. In a study of MNEs in China, it was found that Hong-Kong and Taiwan based MNEs had significantly lower standards for health and safety (and environmental concerns) than European and US based MNEs (Chinen et al., 2008). Generally, there is also a clear difference between MNEs operating in developed countries and those in developing countries. Amongst OECD-European companies, 91 percent have 'some evidence' of health and safety systems compared with 55 percent of companies from emerging economies showing little or no evidence of health and safety systems. The sectors with the highest proportion of health and safety systems are mining, chemicals and oil and gas (OECD, 2009b).

#### **Industrial relations**

The industrial relations section of the Declaration incorporates the freedom of association and the right to collective bargaining and consultation; the examination of grievances and settlement of industrial disputes and to organise. Much of the research is focused on Western based MNEs, sometimes with subsidiaries in developing countries, but there has been little research into industrial relations in MNEs originating from developing countries such as China (Shen, 2007). This is an important gap in information as developing countries' industrial relations systems are often characterised by weaker support for freedom of association and the right to organise (Egels-Zanden and Hyllman, 2007). It might, therefore, be predicted that labour rights in MNE subsidiaries in developing countries will be lower than in developed countries. The 'country of origin' effect is widely discussed in the literature and this holds that MNEs' approach to industrial relations and HRM in their subsidiaries will conform to their home country practices and policies (Shen, 2007; Lavelle, 2008). However, it has been illustrated that "different national contexts provide frameworks which allow MNCs greater or lesser flexibility for external management policies" (Vo and Rowley, 2010: 234).

Overall, MNEs have a tendency to avoid unions while adhering to local legislation, particularly in new sites. They do respond to union pressure (Edwards et al., 2007; Lavelle, 2008; Quintanilla, Susaeta and Sanchez-Managas, 2008; Shen, 2007). The research indicates that MNEs are often clearly unionised or do not have a union presence at all and in companies that recognised unions, the majority of employees were unionised (Belanger, Harvey, Jalette, Levesque and Murray, 2006; Lavelle, 2008). There is a strong connection between the country of origin and level of union

recognition, with US MNEs less likely to engage with unions than Irish, United Kingdom (UK) and continental European MNEs as illustrated in figure 1 below (Edwards et al, 2007; Lavelle, 2008; Tuselman, Allen, Barrett and McDonald, 2008). Where there is union presence, union activity is often limited (Aggarwal, 2007; Braun, 2007). There is evidence that MNEs have taken punitive action, such as dismissal, against employees who have tried to unionise workplaces, particularly in developing countries (Royle, 2010). Of further note is research that indicates that MNEs may impact on the IR and HRM framework of the host country (Collings et al., 2008; Navrbjerg and Minbaeva, 2009).

France Germany Nordic Area ■ Recognition at no sites ■ Recognition at some or most sites Rest of Europe ■ Recognition at all/single site(s) Japan USA Rest of World 0% 20% 40% 60% 80% 100%

Figure 1. Union recognition in MNEs in the UK by country of origin

Base: All companies, valid N = 300 weighted cases

Source: Edwards et al., 2007: 80.

Consultation generally occurs at a low level and is most likely to take place in unionised MNEs (Belanger et al., 2006; Edwards et al., 2007). Overall, MNEs have advocated decentralisation of bargaining arrangements to increase "scope for company negotiation within sector and inter-sector agreements" (Marginson and Meardi, 2009: 28). Simultaneously, research indicates that non-union forms of representation are increasing in MNEs (Edward et al., 2007), but that there is a lack of access to collective representation for non-unionised employees (Belanger et al., 2006). While country of origin effect does influence MNEs, recent research indicates that of MNEs operating in the UK, the differences overall were not as great as expected: "that these multinationals may be embracing voice regimes associated with dominant Anglo-American business practice and/or escaping constraints on employee voice practice which domestic environments are perceived to impose" (Marginson, Edwards, Edwards, Ferner and Tregaskis, 2010). Similarly to union recognition, MNEs that recently engaged in acquisition had clearly different voice practices within the organisation (Marginson et al., 2010).

There is scant research that investigates, in detail, the examination of grievances and settlement of industrial disputes, and national statistics do not distinguish between domestic companies and MNEs. The research predominantly investigates HRM practices overall and how they interact with host country industrial relations frameworks. One study of American MNEs in Ireland pointed to a tendency to deal with grievances with employees individually rather than as a group or through the union. This extended to group grievances (Collings et al., 2008). There is also the suggestion that MNEs choose their locations, in part, based on the industrial relations framework of the host country with factors such as weak unionisation and employment legislation and strong managerial

authority preferred (Hewison and Chiu, 2009). It may be that MNEs operating under these frameworks, and with unitarist goals, would avoid or suppress industrial disputes. Collective labour disputes in Chinese-owned MNEs have been found to take place predominantly in manufacturing and refineries where workers are largely blue collar. This study suggested that "because labour standards in the case of Chinese MNEs were partly influenced by home standards, blue collar workers were more likely to be employed under conditions from which disputes arose" (Shen, 2007: 422).

# **Global Framework Agreements**

The incidence of Global Framework Agreements (GFAs) provides some indication of the coverage of the Declaration's clauses in MNEs. GFAs are agreements made between Global Union Federations (GUFs) and individual MNEs for their worldwide operations. GFAs cover minimum labour standards in their operations and usually encourage them in subcontractors and suppliers to the MNE. The first GFA was agreed with a French company, Danone, in 1988. By December 2007, 61 GFAs had been agreed, covering a total of approximately 5 million workers (Papakakis, 2008). As of June 2008, that number had increased to 68 agreements. Nearly all of the GFAs agreed have been with MNEs which are headquartered either in the European Union (EU) or the European Economic Area (EEA). The remaining agreements have been with companies headquartered in South Africa (2), Russia (1), New Zealand (1), Canada (1) and the USA (1). Almost two thirds of all GFAs were agreed to by MNEs based in Germany, France, the Netherlands and Sweden (Telljohan, da Costa, Muller, Rehfeldt and Zimmer, 2009). GFAs generally adhere to the ILO Core Labour Standards and some include minimum conditions of employment such as wages, working time and health and safety. Key differences among GFAs can be found in the scope of their application, implementation and union rights. Many GFAs include a clause that the MNE will encourage its suppliers to conform to the GFA. Only 9 percent of GFAs assume responsibility for the whole supply chain and 31 percent do not mention suppliers and subcontractors (Telljohan et al., 2009). Generally, GFAs represent quite exceptional cases that are heavily dependent on factors, such as the presence of a strong trade union, management willingness to cooperate with unions particularly as these are voluntary agreements, and a home country with cooperative industrial relations (Telljohan et al., 2009).

# **Concluding comments**

MNEs are becoming increasingly important as employers globally, and there are indications that their approach to employment impacts significantly on many areas associated with the 1977 Declaration, such as national IR and HRM frameworks. The nature of their impact is mixed. On the positive side, there are strong indications that MNEs tend to pay higher wages than domestic firms. There is also no substantial evidence that MNEs are associated with the incidence of child labour. On the negative side, however, they encourage unequal skills and training development between developed and developing countries, and potentially further disadvantage employees in developing countries. All indications are that MNEs operate at the lowest level of employment conditions allowable by legislation in the countries within which they operate, and furthermore may contribute to other existing areas of difficulty such as pay equity.

Clearly, there are important gaps in the research into the effect that MNEs and FDI have on employment, conditions of work, training and industrial relations on a national and global basis. Further research is needed, in particular, in the area of EEO and pay equity; the comparative effect

on emerging economies, particularly the demand for skills and the impact on skills or training, and knowledge transfer; minimum age of work and child labour and the impact on industrial relations in general. The research across a number of the areas covered by the Declaration indicates the variance of impact according to factors, such as the sector, home country conditions and host country conditions. It would, therefore, be desirable for further research across a range of conditions and countries.

Research has predominantly been undertaken in developed countries such as the USA, the UK and Ireland. This is noteworthy because there appear to be significant differences between MNEs operations in different host countries, depending on whether the hosts have developed or developing economies, and depending on whether the MNEs' home base is in a developed or developing country. With India and China becoming more important players in terms of FDI, there is a particular need for research into the effect of MNEs in those countries. It also has been noted that the research is, predominantly, into large MNEs, and that more research is needed into small and medium sized MNEs (Collings, 2008). Finally, there is little research into the effect of MNEs on employment in Australasia, and while New Zealand is a small economy, as can be seen in recent developments with Warner Brothers, MNEs may impact on the industrial relations framework in New Zealand.

#### **Notes**

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<sup>&</sup>lt;sup>1</sup> Raymond Markey and Katherine Ravenswood, *The Effects of Foreign Direct Investment and Multinational Enterprises on the areas covered by the 1977 MNE Declaration of the ILO. A Global Holistic Scan*, New Zealand Work and Labour Market Institute, Auckland University of Technology, September 2009.

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