

# **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**

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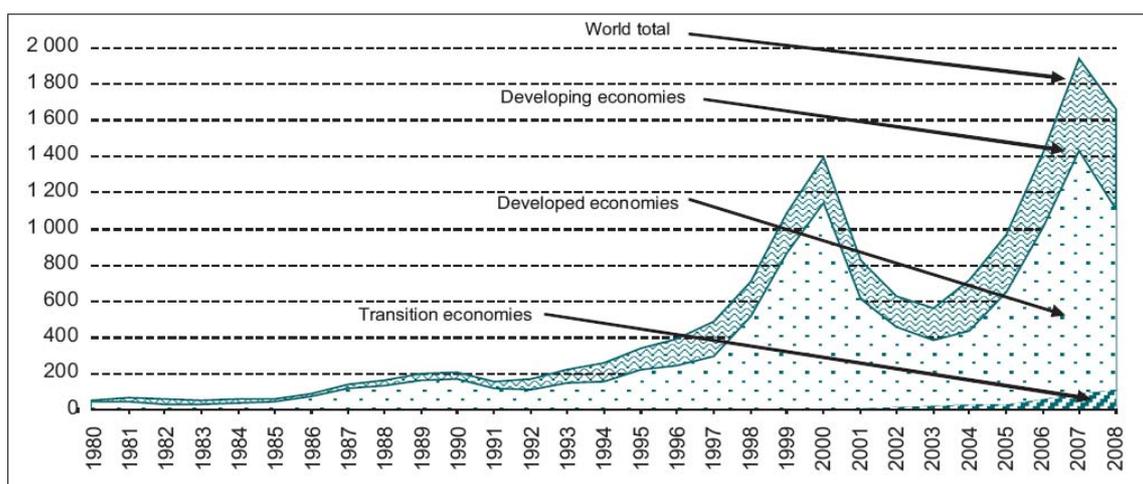
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## 1. GLOBAL FDI TRENDS

Most of global FDI remains in OECD economies and is unlikely to change, with around 30 per cent held in non-OECD economies (Molnar, Pain & Taglioni, 2008). However, the location of outward FDI is changing and China, and India to some extent, are becoming more significant countries for both inwards and outward FDI flow. Clearly FDI flows have been affected by the global financial crisis and this has resulted in sharp decreases in FDI.

FDI flows grew steadily from 2004 until their peak in 2007, a record \$1.9 trillion, as is illustrated in Diagram 1. Following the economic crisis FDI flows have dropped considerably and in the first half of 2009 global flows in FDI halved. The impact of the crisis has initially been greatest on financial services, automotive industries, building materials, intermediate goods and to some extent on consumption goods. Developed countries have been impacted most by the economic crisis with both FDI inflow and outflow decreasing (UNCTAD, 2009a).

**Diagram 1. FDI inflows, global and by group of economies, 1980 – 2008 (billions of dollars)**



Source: UNCTAD, 2008, p.7

Table 1 below illustrates the comparable drop in FDI growth between the different regions in the world. Overall, while both developed and developing economies experienced a decrease in growth between 2006 and 2007, the decrease was greatest for developed economies overall. The decrease was most evident for North America and non-EU developed Europe. Amongst developing countries, those in South Asia, West Asia and North Africa suffered the biggest drop in FDI growth, and Latin America showed an increase in the percentage of growth between 2006 and 2007. These patterns indicate significant shifts in the distribution of FDI flows globally.

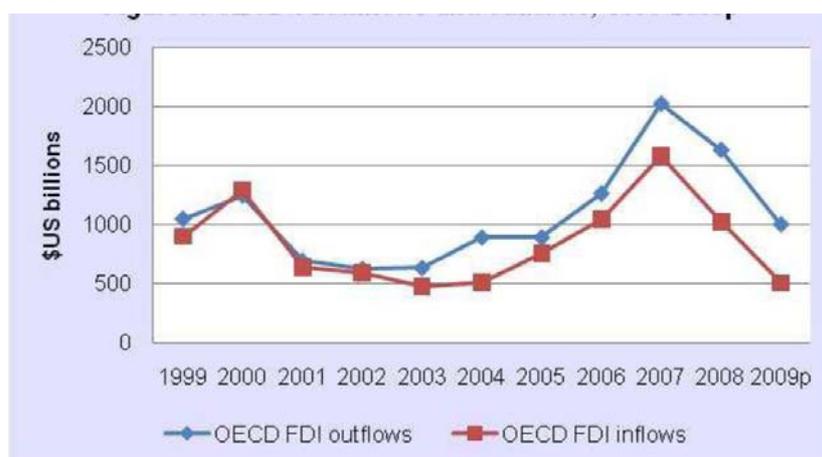
**Table 1. Growth rates of FDI flows denominated in US dollars & in local currencies, 2006-2007 (Per cent)**

Host economy	Growth rate of FDI flows denominated in dollars		Growth rate of FDI flows denominated in local currencies <sup>a</sup>	
	2006	2007	2006	2007
<b>World</b>	47.2	29.9	45.5	23.1
<b>Developed economies</b>	53.9	32.6	52.3	24.7
Europe	18.6	41.6	17.3	30.6
EU	12.8	43.0	11.5	31.6
Other developed Europe	421.5	19.9	430.1	14.4
North America	127.3	14.0	124.3	12.1
<b>Developing economies</b>	30.5	21.0	28.9	17.0
Africa	55.3	15.8	53.4	14.1
North Africa	89.2	-3.2	85.9	-5.7
Other Africa	31.2	35.3	30.4	34.4
Latin America	21.6	36.0	18.5	30.6
South America	-3.0	66.9	-7.8	54.9
Central America	1.8	26.6	0.0	27.2
Asia	29.9	17.0	28.9	13.1
West Asia	50.1	11.7	53.4	8.6
South, East and South-East Asia	24.8	18.6	22.6	14.5
East Asia	13.5	18.8	11.8	16.2
South Asia	112.4	18.8	117.5	11.1
South-East Asia	31.1	18.1	25.3	11.8
<b>South-East Europe and CIS</b>	84.6	50.3	78.9	42.2

Source: UNCTAD, 2008, p.4

Diagram 2 indicates a continued drop in both inward and outward FDI in 2009 for OECD countries, although FDI outflows still have not fallen below the low point reached in 2003 (OECD, 2009).

**Diagram 2. OECD FDI outflows and inflows 1999 - 2009**

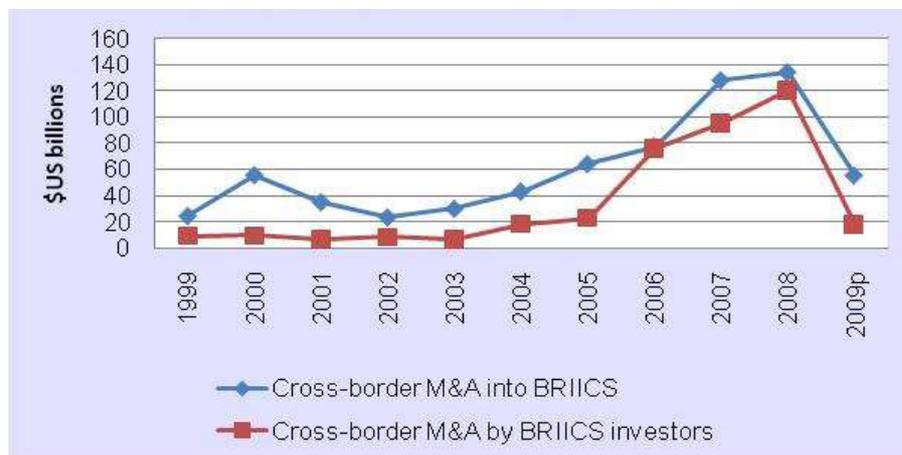


Source: OECD, 2009d, p.2

The greatest impact in changed FDI flows from the global recession appears to have been on developed countries up to this point, with MNEs further shifting their focus to developing countries for outgoing FDI. Diagram 3 illustrates that in 2008 emerging economies' FDI continued to grow, compared to a decline in OECD economies (Diagram 2). Emerging economies' share in global FDI flows increased to 43 per cent in 2008. FDI flows in 2008

reached record highs in Africa, South, East and South-East Asia, and increased in other developing regions. However it appears that these emerging economies' FDI flows have decreased for 2009, as indeed they have in all regions (UNCTAD, 2009e).

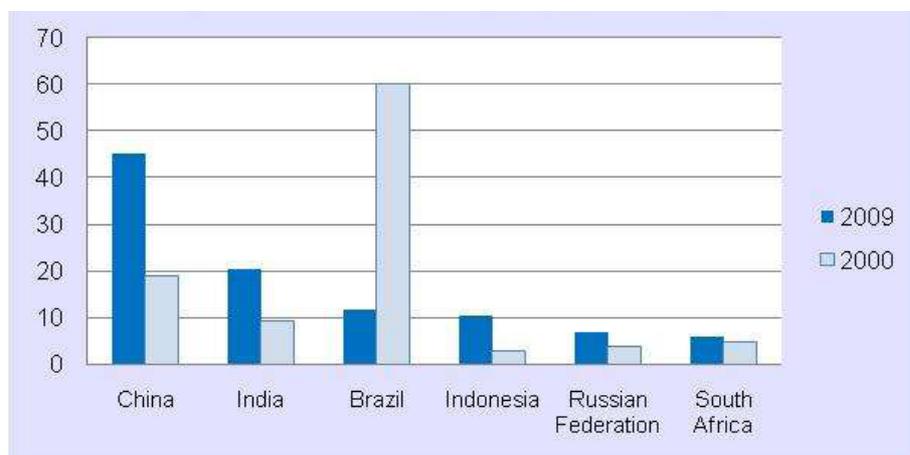
**Diagram 3. Cross border mergers & acquisitions into Brazil, China, India, Indonesia, Russia & South Africa**



Source: OECD, 2009d, p.3

China is a growing source of inward and outward FDI representing 'more than a third of the total inward FDI in all non-OECD countries, and more than half of outward FDI' (OECD, 2009a, p.197). Along with India, China has had the biggest increase of FDI amongst emerging economies since 1999, as shown in Diagram 4. In the first six months of 2009 India and China accounted for 65 per cent of inward international investment into emerging economies (2009). 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 exceed inward FDI (OECD, 2009). These statistics are particularly interesting in light of information in following sections that indicates that MNEs operating in emerging economies such as China and India 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 with a growth in MNEs from emerging economies, as they have lower working conditions also.

**Diagram 4. Distribution of mergers & acquisitions into largest emerging economies, 2000-2009 (percent)**



Source: OECD, 2009d, p.3

Where there has been a change to legislation or policy by governments it has been predominantly to encourage, rather than restrict FDI (OECD, 2009b; UNCTAD, 2009b). Encouraging inward FDI will remain important to developing countries, and so policy that is attractive for FDI is essential. However, ‘national efforts to maintain and attract foreign investment must not result in “race to the bottom” policies, under which developing countries lower social and environmental standards or offer unsustainable financial or fiscal advantages’ (UNCTAD, 2009, p.48). Table 2 illustrates some examples of recent policy measures impacting on FDI. None of these appear to favour ‘race to the bottom’ policy approaches.

**Table 2: Some examples of recent policy measures directly impacting FDI introduced after September 2008** (this is not an exhaustive list)

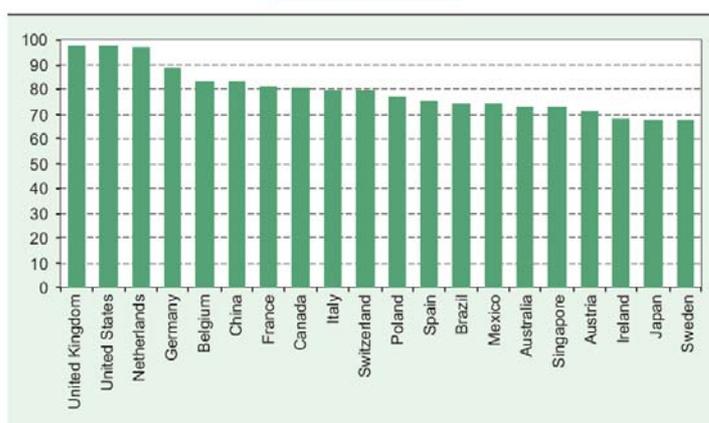
Country	Measure	Relevant features
Algeria	A fiscal measure introduced in the 2009 budget, January 2009.	A 15% tax will be levied on profits transferred abroad by foreign companies operating in Algeria.
Canada	Amendments to the Investment Canada Act and Canada Transportation Act, February 2009	Some obstacles to FDI are relieved and the transparency of government decision is increased.  Introduction of national security test on investments by non-Canadians in new or existing Canadian businesses.
Canada	Amendments to the Investment Canada Act and Canada Transportation Act, February 2009	Limits of foreign ownership in Canadian Airlines are raised from 25% to 49%
Columbia	Introduction of new capital-control measures (Sept. 2008)	Affects short-term capital flows
India	Changes in FDI regulation, December 2008	Larger share of foreign ownership in many activities such as industrial parks, mining and petroleum, air transport
India	Changes in FDI regulation, February 2009	Facilitate application of caps on foreign ownership in strategic sector (defence, aviation, telecommunications).
Japan	Existing export insurance schemes for Japanese affiliates operating in developing countries have been extended to affiliates in developing countries	Facilitates activities and trade of Japanese affiliates abroad.
Japan	Granting of business loans by Japan bank for International Cooperation (JBIC) to Japanese companies and their affiliates which operate in developed countries (March 2009), extension of loans that had been limited to those in developing countries	Facilitates activities and trade of Japanese affiliates abroad.

Source: UNCTAD, 2009d, p.42

## Multinational Enterprises

MNEs are characterised by increasing diversity of national origin and industry sector of operations, but 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. This growth has occurred after a general privatization of infrastructure services that were previously state owned and with restrictions on foreign ownership (UNCTAD, 2009d). 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, as can be seen in Diagram 5.

**Diagram 5. Location intensity of the 20 most preferred host economies, 2007 (number of firms)**



Source: UNCTAD, 2008, p. 28

There is also a high degree of asset concentration amongst MNEs. In 2006 the largest 10 MNEs in the world accounted for approximately half the financial assets of the top 100 MNEs. 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.

**Table 3. Snapshot of world's 100 largest MNEs, 2005-2008/9 (Billions of \$, 1000s of employees & per cent)**

Variable	2005	2006	% change	2006	2007	% change	2008	% change
<b>Assets</b>								
Foreign	4732	5245	10.8	5245	6116	16.6	6094	-0.4
Total	8683	9239	6.4	9229	10702	15.8	10687	-0.1
Share of foreign in total (%)	54	57	2.3	57	57	0.4	57	-0.1
<b>Sales</b>								
Foreign	3742	4078	9.0	4078	4936	21.0	5208	5.5
Total	6623	7088	7.0	7088	8078	14.0	8518	5.5
Share of foreign in total (%)	56	58	1.0	58	61	3.6	61	0.0
<b>Employment (thousands)</b>								
Foreign	8025	8582	6.9	8582	8449	-1.66	8898	5.4
Total	15107	15388	1.9	15388	14870	-3.4	15302	2.9
Share of foreign in total (%)	53	56	2.7	56	57	0.98	58	1.4

Source: Adapted from UNCTAD 2008, p.27; UNCTAD 2009e, p.20

**Table 4. Snapshot of world's 100 largest MNEs from emerging economies, 2005-2007, (Billions of \$, 1000s of employees & per cent)**

Variable	2005	2006	% change	2007	2006-2007 % change
<b>Assets</b>					
Foreign	471	571	21.3	767	34.3
Total	1441	1694	17.6	2186	29.0
Share of foreign in total (%)	33	34	1.0	35	1.4
<b>Sales</b>					
Foreign	477	605	26.9	737	21.8
Total	1102	1304	18.3	1617	24.0
Share of foreign in total (%)	43	46	3.2	46	-0.8
<b>Employment (thousands)</b>					
Foreign	1920	2151	12.0	2638	22.6
Total	4884	5246	7.4	6082	15.9
Share of foreign in total (%)	39	41	1.7	43	2.4

Source: Adapted from UNCTAD, 2008, p.29; UNCTAD, 2009e, p.23

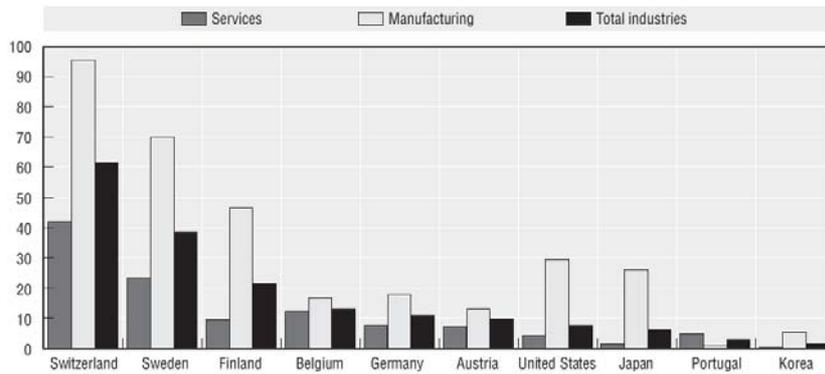
As can be seen in Tables 3 and 4, emerging economy MNEs employ a much smaller number than the top 100 MNEs globally. However, while the global top 100 show a decrease in the number of people employed to 2007, emerging economy top 100 MNEs are increasing employment. The growth in total assets also appears to be stronger for the top 100 MNEs from emerging economies than from the global top 100 MNEs. In general MNEs play a significant role in the global economy. There are approximately 82,000 MNEs globally and these have about 810,000 foreign affiliates. Exports by foreign subsidiaries are estimated to be about one third of total world exports, and MNEs employ about 77 million people globally (UNCTAD, 2009e).

## **2. IMPACT OF FDI and MNEs ON EMPLOYMENT**

### **2.1. Employment promotion**

As a reaction to an uncertain economic situation, transnational companies have reported cutting their FDI expenditure which will have implications for employment as the MNEs attempt to cut costs (UNCTAD, 2009a). However, until 2008 increased FDI was reflected in the increase in the number of jobs in the foreign affiliates of MNEs, reaching three per cent of the global workforce (OECD, 2009a). In terms of national employment there is significant variance between countries and the percentage employed in outward foreign affiliates. An example of this variance is in Diagram 6, which illustrates the percentage of national employment by manufacturing and service sectors, and in total, for key OECD countries with MNEs.

**Diagram 6. Employment in outward foreign affiliates as a percentage of total national employment**



Source: Molnar et al., 2008, p.90

Theoretically, and dependent on the structure of the MNE’s production, increased FDI will decrease employment and raise the relative demand for skilled labour in the country of origin. Subsequent to this, employment will increase and the cost of skilled labour is likely to increase compared to the cost of unskilled labour. However, studies of the effect of FDI and MNEs on national labour markets do not provide a clear picture of what actually occurs and the effects are likely to be heterogeneous across both countries and industries (Molnar et al., 2008). Data on employment in the foreign affiliates of MNEs from the USA, Germany and Japan (over the period of 1980-2003) indicates that the ‘ratio of foreign to domestic employment is typically higher in manufacturing industries than in service sectors’ (Molnar et al., p.101) and that foreign employment growth ‘is positively associated with domestic employment growth’ in the US (Molnar et al., 2008, p.104). 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, p.111).

## 2.2. Equality of opportunity and treatment

Equality of opportunity is increasingly recognised by MNEs which want to avoid damaged reputation and possible legal repercussions of discriminatory practices. Increased diversity is also viewed as one way of expanding the talent pool for employers and boosting employees’ motivation and commitment (OECD, 2009a). OECD-Europe 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 per cent compared to 16 per cent in MNEs from the non-OECD/emerging markets (OECD, 2009a). However, this may change as perceived skills shortages in Asia have increased awareness of, for example, work-life balance policy as a tool for widening the pool of employees from which to recruit ( De Cieri & Bardoel, 2009). In terms of equal treatment, some studies have shown that in MNEs in the UK that employ predominantly women, they are less likely to pay above the median, whereas MNEs in the UK otherwise often pay above the median rate (Edwards, Edwards, Ferner, Marginson & Tregaskis, 2007). However, there is scant research in this area.

### **2.3. Security of employment**

In an OECD survey of 2000 publicly listed companies, less than 10 per cent 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, 2009a). Turnover has been shown to be higher in MNEs than in domestically owned firms (Brown, 2007; UNCTAD, 2009a) 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, 2009a). 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 not enough evidence for this to be a conclusive observation (Crino, 2009). 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.

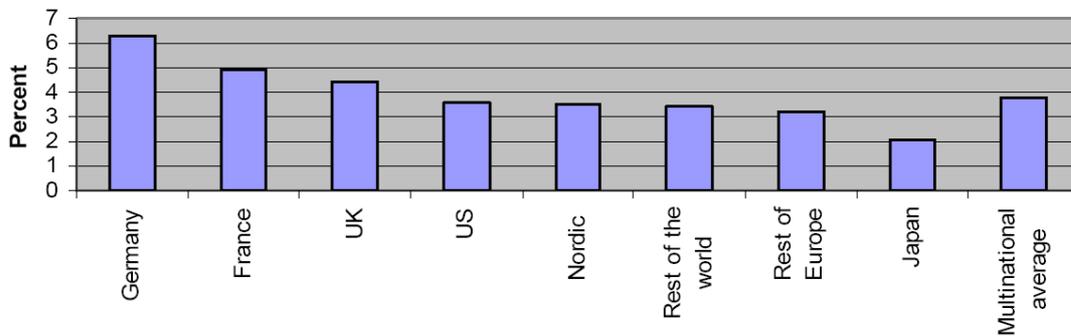
### **3. TRAINING**

Research into training in MNEs has largely focused on the training of expatriates in particular cultural and language training, and not on the training of host country nationals (Zheng, Hyland & Soosay, 2007; Vo, 2009) and generally, there is little clear evidence regarding training systems in MNEs (OECD, 2009a). Indicators of training used in the research are the expenditure on training, the amount of training for managerial development and training for key groups of employees. However, comparison across studies is problematic as some use expenditure on training in relation to pay budget, and others use total budget or the expenditure on training per employee. 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 workers, and consequently do not invest in skill development for these workers.

In a study of MNEs operating in Asia (both Asian and non-Asian), it was found that they invested significantly in training, although this was predominantly in service based industries and targeted at managerial and professional employees (Zheng et al., 2007). While more money was spent on managerial training there was evidence of a large number of apprenticeships and traineeships for employees in the manufacturing sector. The authors of the study suggested that this was a consequence of a skills shortage in Asia which often requires MNEs to invest in basic skills training for lower level production employees. There was also some evidence, statistically small, that non-Asian owned MNEs invested more in training than Asian owned MNEs which has been found in previous studies. The size of the MNE impacted significantly on investment in training with small MNEs spending minimal amounts on training. The study found, however, that managers and professionals in Asia were dissatisfied with the training they received and found it irrelevant and lacking in quality, which suggests that the training may not have enhanced their skills and career advancement (Zheng et al., 2007). 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) and had fewer training opportunities. This example points to some of the differences in MNE strategy that may contribute to discrepancies in skill level between developed and developing countries.

In the UK MNEs on average have a training bill of approximately 3.8 per cent of the total annual pay bill. UK owned MNEs had a higher percentage, 4.4 per cent, compared to foreign owned with 3.7 per cent (Edwards et al., 2007). Country of origin seemed to be linked to the amount invested in formal training with considerable variance apparent as can be seen in Diagram 7 below.

**Diagram 7. Average training expenditure in the UK operations of multinationals by country of origin**



Base: All companies with an annual expenditure on training n = 152, weighted

Source: Edwards et al., 2007, p.56

The study of UK MNEs uses four aspects of training and development as measures: training investment, succession planning, high performance training for managers and training for the largest occupational group. Succession planning was, similarly to training expenditure, more prevalent in UK owned MNEs than foreign owned, and was also linked to operations using a global system of HRM which indicates the importance of succession planning ‘as a global mechanism for managing managerial talent (Edwards et al., 2007, p.58) for MNEs. Training of management showed similar patterns across all MNEs, regardless of home country or sector, with 70 per cent of the organisations having a management development programme. Most of these programmes were global. Training for key groups of employees was less extensive than for managerial development (Edwards et al., 2007).

A study of MNEs in Ireland, using similar measures as in the Edwards et al. (2007) study, found that there were some differences by country of origin in the amount spent on training, but that these were small. Contrary to the UK results, Irish owned MNEs were less likely to spend on training than foreign owned MNEs. Irish MNEs were less likely to have management development programmes and this may be due to their smaller size, and perhaps greater financial constraints, than foreign owned MNEs. Overall, this study showed that there was little difference in emphasis on training by foreign owned or locally owned MNEs in Ireland (McDonnell, 2008).

The trend of domestically owned MNEs having more of a focus on training than foreign owned MNEs was also not found in Sweden. In fact, almost the opposite effect was found with demand for skilled labour appearing to increase in non-MNEs that become foreign owned. Furthermore, a higher presence of foreign MNEs increased the demand for skill in domestically owned MNEs in the same industry.

A study of technology based firms in Portugal found that foreign ownership directly impacted on education intensity in the firms, but in terms of skills had an indirect impact through research and development investment. (Tavares & Teixeira, 2005). In contrast, a study of Chinese MNEs with subsidiaries in the UK found that there was less training of host country nationals, and that some of the common reasons for this were high turnover amongst host

country nationals, the MNE not being confident about host country training systems, and a lack of expertise for training the host country nationals. Many of the firms had no formal international management development policy despite recognising the importance of it for international business. Similarly to Japanese MNEs in Vietnam, many of the Chinese MNEs either rarely included host country nationals in management development training and did not promote them to senior management level. Other companies had limited management development training but at subsidiary level only, not global. Overall, Chinese MNEs placed little emphasis on training and did not identify and develop potential managers (Shen & Darby, 2006).

FDI was found to have a positive effect on training and education in Costa Rica with 55 per cent of exporters having a training system compared to 16 per cent of companies producing for the domestic market. Of those companies exporting, a higher percentage of foreign owned companies had a training system, 68 per cent compared to 51 per cent of domestically owned companies. High-technology producers also employed a larger percentage of skilled workers, which increases the opportunity for knowledge spillover. Furthermore, foreign high-tech companies have had a significant impact on the technological curriculum at Costa Rican universities. For example, Intel contributes to the development of engineering curricula at two tertiary education facilities in Costa Rica (Paus & Gallagher, 2008).

There appear to be few studies that investigate in depth 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. There is some evidence in China that links increased middle school and college education amongst rural populations in regions that have economic and technological development zones (Zhuang, 2008).

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. The implications of this are that developing countries with low skill 'endowments' who open up to FDI and trade will attract investors who want low, and cheap, skills and will therefore not develop the existing skill base. This situation potentially leads to international skills inequalities (Te Velde & Xenogiani, 2007). Studies have shown that when Swedish MNEs transferred less-skilled employment to subsidiaries in low-wage countries this was positively related to skill upgrading in the parent company (Bandick & Hansson, 2009). Similar results were found in a study of Italian MNEs when labour intensive production was shifted to low cost countries (Castellani, Mariotti & Piscitello, 2008). Furthermore, demand for skilled labour in Swedish MNEs increased with a higher presence of foreign owned MNEs in the same industry (Bandick & Hansson, 2009), indicating an impact from competition. In contrast to this though a study on both indirect and direct effects of outward FDI on the parent companies found that FDI towards both high and low income countries has a negative impact on the demand for low skilled workers in the country of origin, and that 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 & Piscitello, 2009).

In a study of patent citation data it was found that particularly for technologically advanced countries, knowledge transfer between host countries and MNE subsidiaries was greater from the host country to the MNE than vice versa. MNE subsidiaries, however, are also a strong source of knowledge for the host country (Singh, 2007). Several studies point to the difficulty in distinguishing a distinct causal effect of both inward and outward FDI as country conditions vary widely (Bitzer & Gorg, 2009).

#### **4. CONDITIONS OF WORK AND LIFE**

In a survey of almost 2,000 companies, including some from emerging markets, the number of companies meeting ILO MNE Declaration standards varies according to region and sector. For example, in more highly regulated countries, such as OECD-Europe, union membership is higher than in non-OECD/emerging markets. 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 meets the Declaration. This may be due to public profile and consequent pressure from investors, trade unions, NGOs and consumers (OECD, 2009a).

##### **4.1 Wages, benefits and conditions of work**

Evidence points to FDI as an important factor in improving living standards for workers (OECD, 2009a). However, this impact is mainly through wages. Whilst the evidence suggests that inward FDI has a positive impact on wages, it seems to have little effect on other working conditions (OECD, 2008). There are also clear differences between developed and developing nations in the effect of FDI on wages, benefits and conditions of work.

Studies show that foreign firms tend to have a younger, more educated workforce than average and also pay higher average wages. This result is in part because foreign companies select companies for takeover that are already performing well (Almeida, 2007). MNEs generally pay better wages than domestic firms to employees (Almeida, 2007; Brown, 2007). An OECD report places the difference in wages at 40 per cent higher in foreign MNEs and 15 per cent higher in domestic MNEs than in local firms. The differences between average wages in local firms and MNEs tends to be greater in developing countries (OECD, 2008). Higher wages in MNEs also may have an indirect effect on wages of employees in domestic firms (OECD, 2009a). However, the impact on wages is largely confined to the wages of employees in the affiliates only (OECD, 2009a), with any spillover of wage effects likely to be very small and due to ‘a distributional effect that arises as a result of the competition for local labour by foreign firms that expand their production activities’ (OECD, 2008, p.296).

Working conditions in MNEs are not always better than domestic, and in particular working hours have been found to be longer in foreign-owned firms (OECD, 2009a). With respect to labour standards and conditions of work in general, MNEs have been shown to comply with minimum legal standards in the host country, and not to provide higher standards (Chinen, Wang & Wang, 2008). Indeed, evidence indicates that MNEs do not export their labour practices to foreign subsidiaries (OECD, 2009a). Some MNE executives in a Chinese study indicated that they could achieve greater efficiency because the Chinese labour standards were low, and of course in a low standard, low cost host country MNEs can afford to provide conditions for employees slightly above local requirements in order to attract the best local employees (Chinen et al., 2008). However, there has been little evidence that points to changes in labour protection law in connection with FDI flows (Brown, 2007). Indeed, research indicates that ‘lowering core labour standards or weakening workers’ protection does not facilitate, and may even discourage FDI inflows’ (OECD, 2008, p.299).

Large MNEs concerned with their public reputation and brand have increasingly introduced voluntary codes of conduct. 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).

##### **4.2 Minimum age**

There is less information on minimum ages and child labour in relation to MNEs and FDI. Academic research points to the need for further research in this area (Chinen, Wang & Wang, 2008). However, contrary to general opinion there is some evidence that FDI decreases the incidence of child labour in developing countries. Studies indicate that FDI does not increase the demand for child labour (Iram & Fatima, 2008), is associated with lower child labour incidence (Neumayer & De Soysa, 2005) and indeed, that child labour deters inward FDI (Brown, 2007).

In a study on child labour in Pakistan, it was found that openness through trade was positively linked with the incidence of child labour, and that child labour was more likely in urban populations. However, FDI significantly reduced child labour. The authors of the study suggest that this indicates that foreign investors into Pakistan are 'less interested in exploiting cheap labor, including that of child labourers, than is presumed conventional wisdom' (Iram & Fatima, 2008, p.817). It is similar to previous findings that did not find that countries with low labour standards and high incidence of child labour attracted a greater flow of FDI (Iram & Fatima, 2008). Many Global Framework Agreements 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).

### **4.3 Safety and health**

Safety and health are considered important in terms of protecting the MNE's reputation and avoiding fatalities and regulatory fines (OECD, 2009a). As with other issues, there is a clear difference between MNEs operating in developed countries and those in developing countries. OECD-Europe companies have 91 per cent of companies that have 'some evidence' of health and safety systems compared to emerging markets with 55 per cent of companies 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, 2009a).

As with all aspects of employment in MNEs, country of origin effect is also 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).

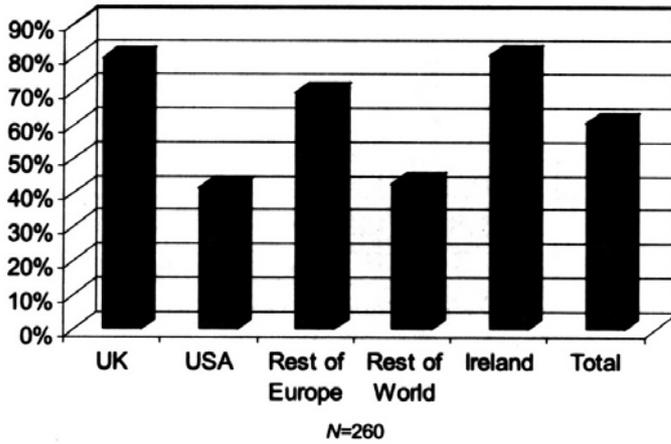
## **4. INDUSTRIAL RELATIONS**

### **5.1 Freedom of association and the right to organize**

There is a strong difference between OECD-Europe and non-OECD/emerging markets. One explanation for this is that MNEs generally appear to extend labour rights no further than host country national legislation requires. MNEs will therefore comply with legislation but be strongly influenced by their home country practices, regulatory backgrounds and social models. For example, European countries have a higher number of employees covered by a collective agreement or union recognition (OECD, 2009), but US MNEs have been found to be less likely to recognise unions. 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 and research as developing countries' industrial relations are often characterised by weaker support for freedom of association and the right to organize (Egels-Zanden & 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). This is apparent in the studies later in this report, particularly with US MNEs showing lower frequency of union recognition than MNEs based in other countries. The consequences of the 'country of origin' effect will vary, clearly, according to the home country, so that for example, workers of Chinese MNEs may have lower standards than those of US MNEs.

Research into MNEs operating in Canada found that 49 per cent of the companies studied had 'at least one union certified for the purpose of collective bargaining in their Canadian operations' (Belanger, Harvey, Jalette, Levesque & Murray, 2006). The MNEs studied showed a tendency to be either unionised or not, so that in companies that recognised unions the majority of employees were unionised. In a large-scale study of MNEs in Ireland, it was found that 61 per cent 'recognised trade unions for purposes of collective employee representation in at least some of their sites' (Lavelle, 2008, p.54). The authors of the study suggest that the size of MNEs in the study was a possible factor in high union recognition, as large organisations are more likely in general to recognise unions, and the data was based on organisation rather than establishment. Otherwise, as Diagram 8 shows, the study found 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 shown in Diagram 8. Furthermore, 82 per cent of Irish owned MNEs engaged with unions compared to 56 per cent of all foreign owned MNEs in the study. Union recognition was more likely in MNEs with more than one site. However, union recognition was lower in new sites established within five years of the study, suggesting that MNEs prefer not to recognise unions but do so in response to strong pressure from strong unions (Lavelle, 2008).

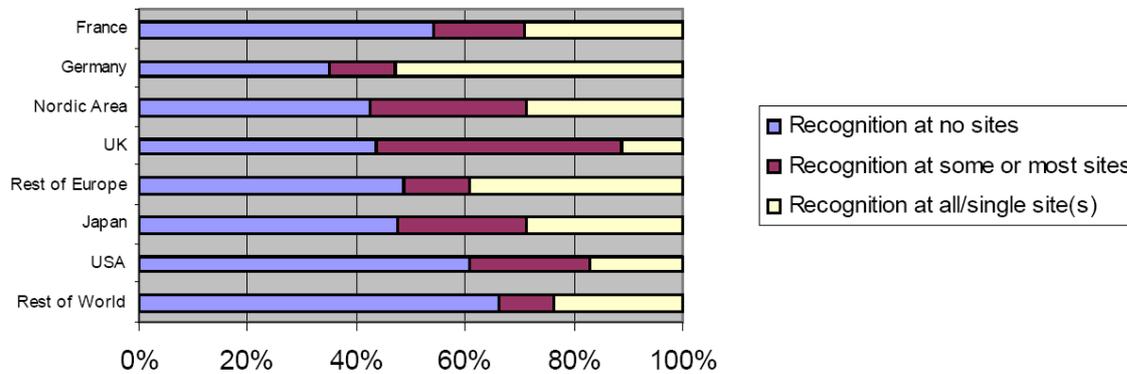
**Diagram 8. Union recognition by MNEs in Ireland**



Source: Lavelle, 2008, p.55.

Research in the UK also found that there was ‘a discernible trend away from union recognition at new sites’ (Edwards et al., 2007, p.x) although representative arrangements, either union or non-union were more likely to exist in MNEs which had been operating in the UK for five years or less. Overall only 16 per cent of MNEs studied recognised unions across all of their sites, whereas union recognition at one site or more was 47 per cent. In MNEs that did not recognise unions at any of their sites, nearly 50 per cent had some form of non-union representation. Management policy was described by respondents as 21 per cent in favour of union recognition, 35 per cent ‘not in favour’ and 44 per cent ‘neutral’. Again, as shown in Diagram 9, there were clear differences in union recognition according to the country of origin of the MNE, with US MNEs less likely to recognise unions (Edwards et al., 2007; Tuselman, Allen, Bartett & McDonald, 2008).

**Diagram 9. Union recognition in MNEs in the UK by country of origin**



Base: All companies, valid N = 300 weighted cases

Source: Edwards et al., 2007, p.80.

A tendency, of US MNEs in this case, to avoid unionism while adhering to local legislation was also noted in a study of US MNEs in Spain. The study found that several strategies were used to avoid the perceived need for unions and to avoid disputes. One of these was to pay significantly higher than the local market rate. Other strategies were to implement works councils or other groups of employees that in effect had a token role and to communicate information directly to employees (Quintanilla, Susaeta & Sanchez-Mangas, 2008). Given the above evidence of MNEs to avoid unionism and often to provide only the standards required by host country legislation, the issue of enhanced labour standards and how they may be

achieved is important. Some research has pointed to the role that local unions can take in working conditions in MNEs. In particular, this research suggests that while the MNEs' willingness to engage in cooperative industrial relations is important, the local union is a key player in enhancing working conditions (Egels-Zanden & Hyllman, 2007; Kahancova, 2009).

## **5.2 Collective bargaining**

Much of the direct evidence relating to collective bargaining is case study based. In a study of four MNEs in Denmark, it was found that MNE management or HRM style can indirectly affect the industrial relations framework, in this case the co-operative atmosphere in each of the companies (Navrbjerg & Minbaeva, 2009). Another Danish study has found that unions are 'not able to secure higher wages in highly unionised enterprises that are owned by foreigners' (Braun, 2007, p.3). A study of special economic zones confirms that union activity in MNEs is limited (Aggarwal, 2007) which suggests that union influence and involvement may be weaker in MNEs than domestic owned enterprises. An Irish study showed that the MNEs studied had clear preferences for no union involvement (Collings, Gonnigle & Morley, 2008) and a Chinese study found that while Chinese managers' preference was not for unionism, they conformed to host country practices for unionism and collective bargaining. This was explained in part by the comparative lack of bargaining power of Chinese owned MNEs compared to Western MNEs, as the former tend to be smaller and rely more heavily upon international markets and host markets (Shen, 2007). In the UK, 'collective bargaining over pay occurs in nine out of every ten cases where there is union recognition' (Edwards et al., 2007, p.79).

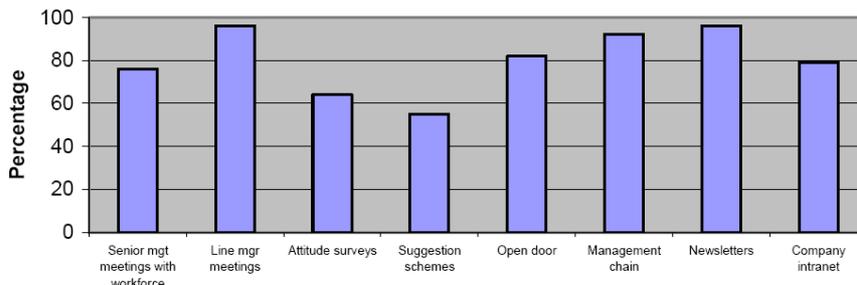
Overall, MNEs have advocated decentralisation of bargaining arrangements to increase 'scope for company negotiation within sector and inter-sector agreements' (Marginson & Meardi, 2009, p.28).

## **5.3 Consultation**

Management consultation with employees may occur through unions, through non-union structures of employee representation (such as works councils or joint consultative committees), or through HRM techniques of direct employee consultation (surveys etc.). Consultation with representative bodies (union and non-union) may also occur at different levels, and involve different degrees of employee influence, ranging from joint decision-making (the highest degree) to consultation with management still making the decisions. Effective consultation requires information flow from management to employees (Markey, 2006; Markey, 2001; Markey and Monat, 1997).

Evidence is patchy. A study of American MNEs in Ireland pointed to an influence on traditional industrial relations institutions in the host country. Part of this was a move towards more unitarist types of management including a 'move away from trade union recognition and towards engaging with employees on an individual basis' (Collings et al., 2008, p.246). 'Effective communications' had been used in the MNEs in an attempt to sideline union involvement, and so direct consultation with employees was an important strategy of the MNEs, involving group meetings, e-mails, one-on-one meetings, all staff meetings and so on (Collings et al., 2008). Of MNEs as a whole in the UK, a variety of means of communication were used, and most companies used at least two mechanisms without giving priority to any one form of communication (see Diagram 10). Types of information that were communicated to employees included the financial position of the company, staffing plans and investment plans both for the UK subsidiary and globally (Edwards et al., 2007).

### **Diagram 10. Means used to communicate with employees**

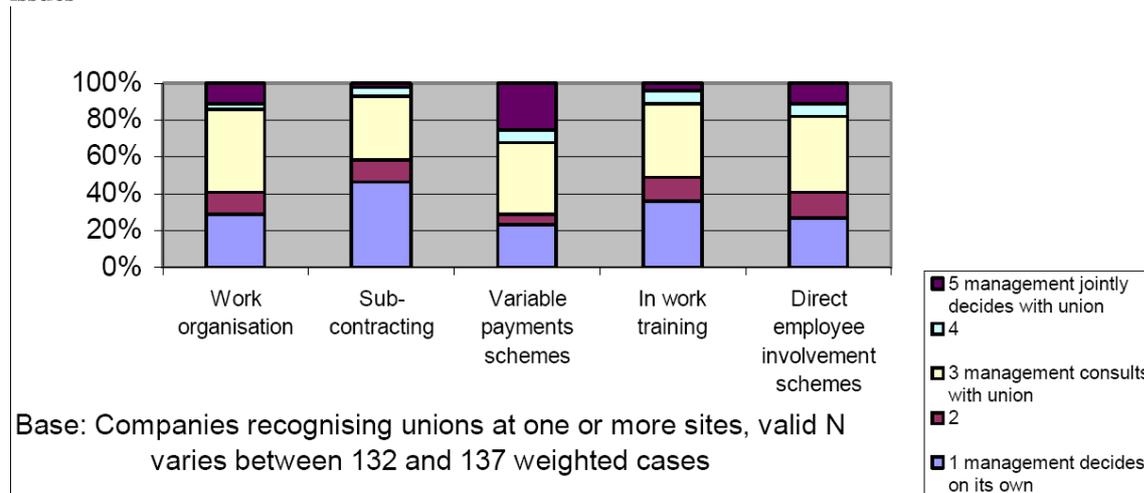


Base: All companies, valid N = 302, weighted cases

Source: Edwards et al., 2007, p.69

In MNEs which did recognise unions, management was most likely to consult them, short of joint decision-making. However, consultation occurred at a relatively low level of engagement and management mostly took decisions on its own on most matters. The exception was with wages, which are part of collective bargaining (Edwards et al., 2007). Diagram 11 illustrates on a 5-point scale, how management in MNEs in the UK engage with unions on issues of work organisation, subcontracting, variable payments schemes, training and direct employee involvement schemes. The diagram indicates that MNEs do not often make decisions jointly with unions and that where unions are involved in decision making, or consulted, it is in an advisory role only.

**Diagram 11. UK MNEs' policy re working with trade unions on 5 issues**

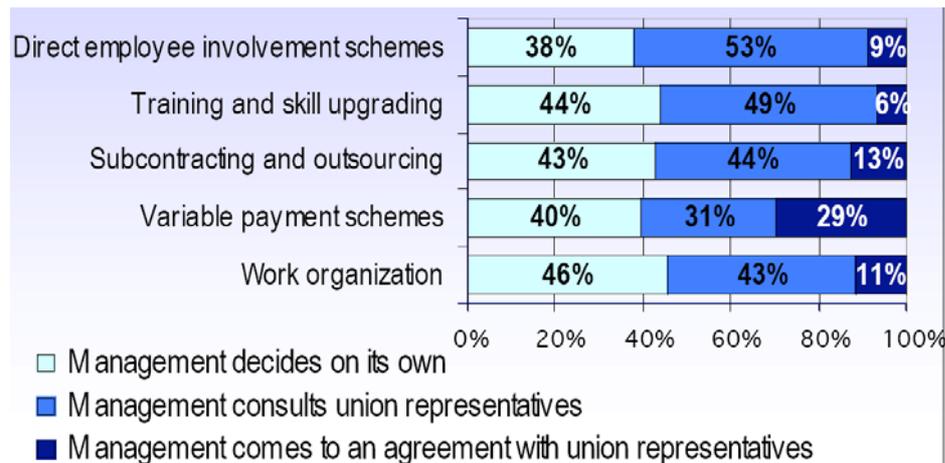


Base: Companies recognising unions at one or more sites, valid N varies between 132 and 137 weighted cases

Source: Edwards et al., 2007, p.82.

In Canada also there is evidence that in unionised MNEs, there is little joint decision making with unions. As can be seen in Diagram 12 below, only around 10 per cent of companies have joint decision making on issues of direct employee involvement schemes, training and skill upgrading, subcontracting and outsourcing and work organisation.

**Diagram 12. Nature of union-management relations in unionised MNEs in Canada**



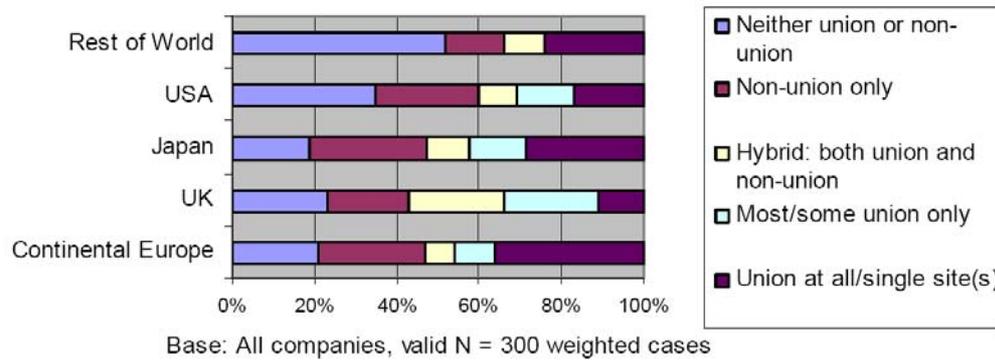
Source: Belanger et al., 2006, p.45

The study found that the main role of unions was to take a consultative role during the decision-making process (in 43 per cent of the MNEs), while in 34 per cent of the MNEs unions were ‘involved in some kind of joint regulation with management (Belanger et al., 2006, p.46). There were sectoral differences with joint regulation most likely to occur in primary, construction and utilities sectors and least likely to occur in service sectors (Belanger et al., 2006). There was also a marked differentiation between Canadian owned MNEs, with 50 per cent of those having some form of joint regulation with unions, compared to only 28 per cent in foreign owned MNEs. With reference to direct forms of communication with employees, most MNEs had established some form of communication with 60 per cent using attitude surveys and 52 per cent using suggestion schemes to gain employee feedback and ideas. A majority of the MNEs provided financial information to employees on both Canadian and international operations, but only about one quarter shared information on investment and on staffing plans with employees (Belanger et al., 2006).

With clear evidence of union avoidance from MNEs in several host countries, it is perhaps not surprising that non-union forms of participation are increasing. In the UK non-union forms of representation are found in 34 per cent of MNEs, and 51 per cent of all MNEs with non-union representative arrangements had established them within three years of the study (Edwards et al., 2007). Diagram 13 shows that Rest of World and US based MNEs in the UK are most likely to have neither union nor non-union employee representation, UK based MNEs are most likely to practice union and non-union employee representation, and continental European MNEs are more likely to have unions at all sites, as well as to practice non-union forms of employee representation.

The Canadian study did not differentiate between country of origin for MNEs in terms of participation for non-unionised employees. It did find, however, that non-unionised employees had no access to any form of collective representation in the majority of the MNEs studied. Representative committees were found in 26 per cent of MNEs and employee associations in 58 per cent of MNEs (Belanger et al., 2006).

**Diagram 13. Patterns of employee representation in MNEs in the UK by country of origin**



Source: Edwards et al., 2007, p. 80

#### 5.4 Examination of grievances & settlement of industrial disputes

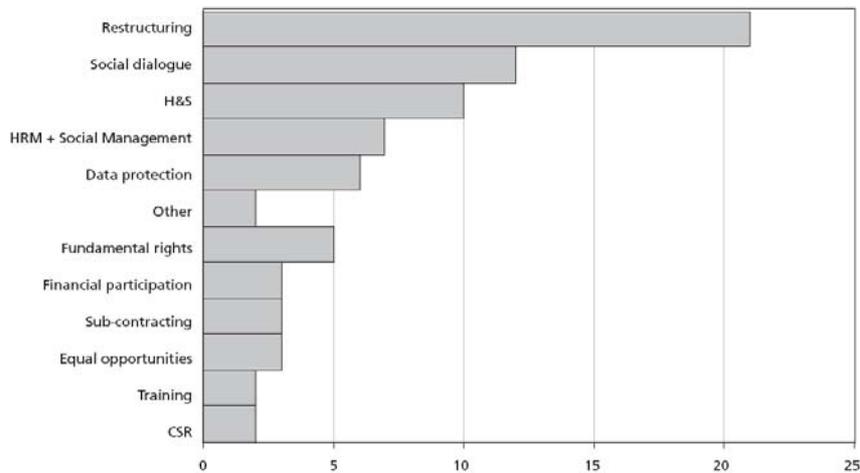
There is scant research that investigates in detail the examination of grievances and settlement of industrial disputes, and national statistics do not distinguish between domestic companies and MNEs. The research predominantly investigates HRM practices overall and how they interact with host country 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 & 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, p.422).

#### 5.5 Global Framework Agreements

Global Framework Agreements (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 at a minimum 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).

**Diagram 14. Content of European Framework Agreements**



Source: Telljohan et al., 2009, p.29

With reference to the content of GFAs, in general they are global in nature, although some are regional (and there are also a number of European Framework Agreements in existence). 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. Diagram 14 gives some indication of the content of framework agreements, although it must be noted that the diagram refers to regional framework agreements with MNEs in Europe. Key differences among GFAs can be found in the scope of their application, implementation and union rights. Table 5 summarises which MNEs and unions have signed GFAs (Telljohan et al., 2009).

Scope of application is usually the worldwide subsidiaries of the MNE that is signatory to the agreement, with the exception of Volkswagen which only includes countries and regions represented in its World Works Council and thus does not include its Chinese subsidiary. Many GFAs include a clause that the MNE will encourage its suppliers to conform to the GFA. Only 9 per cent of GFAs assume responsibility for the whole supply chain and 31 per cent do not mention suppliers and subcontractors (Telljohan et al., 2009).

Implementation of GFAs, in terms of monitoring of observance, varies. Some agreements allow for establishment of a monitoring group of management and employee representatives, which meets at least annually, and others have no provision for monitoring. In some cases the annual meeting of the relevant European Works Council is used to monitor the GFA. More than 50 per cent of the GFAs contain clauses to strengthen union rights, and 'in principle, the existing GFAs contain the rights of ILO Convention 87 ('Freedom of Association and Protection of the Right to Organise') and Convention 98 ('Right to Organise and Collective Bargaining')' (Telljohan, 2009, p.37). 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).

**Table 5. Global Framework Agreements, 1989 – July 2008\***

<b>Company</b>	<b>Employees</b>	<b>Country</b>	<b>Sector</b>	<b>GUF</b>	<b>Year</b>
Danone (BSN)	100,000	France	Food	IUF	1997
Accor	147,000	France	Hotels	IUF	1995
Ikea	70,000	Sweden	Furniture	BWI	2001
Statoil	16,000	Norway	Oil industry	ICEM	1998
Faber-Castell	6,000	Germany	Office material	BWI	2000
Freudenberg	27,500	Germany	Chemical material	ICEM	2000
Hochtief	37,000	Germany	Construction	BWI	2000
Carrefour	430,000	France	Retail	UNI	2001
Chiquita	26,000	USA	Agriculture	IUF	2001
OTE Telekom	18,500	Greece	Telecommunications	UNI	2001
Skanska	79,000	Sweden	Construction	BWI	2001
Telefonica	207,000	Spain	Telecommunications	UNI	2001
Air France	102,500	France	Air transport	ETF	2001
Indesit (Merloni)	20,000	Italy	Domestic appliances	IMF	2002
Endesa	14,000	Spain	Energy	ICEM	2002
Ballast Nedam	8,000	Netherlands	Construction	BWI	2002
Fonterra	20,000	New Zealand	Dairy Products	IUF	2002
Volkswagen	325,000	Germany	Automobile	IMF	2002
Norske Skog	11,000	Norway	Paper	ICEM	2002
Anglogold	64,900	South Africa	Mining	ICEM	2002
Daimler	372,500	Germany	Automobile	IMF	2002
ENI	70,000	Italy	Energy	ICEM	2002
Triumph	38,500	Germany	Textiles	ETGLWF	2002
Leoni	18,000	Germany	Cables/Automotive	IMF	2003
ISS	280,000	Denmark	Cleaning/maintenance	UNI	2003
GEA	14,000	Germany	Engineering	IMF	2003
SKF	39,000	Sweden	Ball-bearing/seals	IMF	2003
Rheinmetall	30,000	Germany	Metal/automotive/electronics	IMF	2003
RAG	87,500	Germany	Mining	ICEM	2003
H & M	40,000	Sweden	Retail	UNI	2004
Club Mediterranee	20,000	France	Hotels	IUF	2004
Bosch	226,000	Germany	Engineering	IMF	2004
Prym	4,000	Germany	Metal manufacturing	IMF	2004
SCA	46,000	Sweden	Paper	ICEM	2004
Lukoil	150,000	Russia	Energy/oil	ICEM	2004

Renault	131,000	France	Automobile	IMF	2004
Impreglio	13,000	Italy	Construction	BWI	2004
CSA Czech Airlines	5,500	Czech Republic	Air transport	ITF-Union-combination	2004
Electricite de France	167,000	France	Energy	ICEM, PSI	2005
Rhodia	20,000	France	Chemical Industry	ICEM	2005
Veidekke	5,000	Norway	Construction	BWI	2005
BMW	106,000	Germany	Automobile	IMF	2005
EADS	110,000	Netherlands	Aviation	IMF	2005
Rochling	6,000	Germany	Automotive/plastics	IMF	2005
Schwan-Stabilo	3,500	Germany	Writing material	BWI	2005
Lafarge	71,000	France	Construction material	BWI, ICEM, WFBW	2005
Arcelor (Mittal)	320,000	Luxembourg	Steel	IMF	2005
PSA Citron Peugeot	207,000	France	Automobile	IMF	2005
Royal BAM Group	27,000	Netherlands	Construction	BWI	2006
Portugal Telecom	30,000	Portugal	Telecommunications	UNI	2006
Securitas	215,000	Sweden	Security Services	UNI	2006
Staedtler	3,000	Germany	Writing material	BWI	2006
France Telecom (Orange)	20,600	France	Telecommunications	UNI	2006
NAG	40,000	Australia	Banking	UNI	2006
Nampak	17,000	South Africa	Packaging	UNI	2006
Euradius	2,600	Netherlands	Printing	UNI	2006
VolkerWessels	16,500	Netherlands	Construction	BWI	2007
Inditex	70,000	Spain	Textiles/clothing	ITGLWF	2007
Brunel	5,300	Netherlands	Recruitment & service provider	IMF	2007
Quebecor	43,000	Canada	Printing	UNI	2007
WAZ	16,000	Germany	Media	IFJ	2007
Umicore	14,000	Belgium	Metal, chemicals	ICEM, IMF	2007
Vallourec	18,000	France	Steel architecture/automotive	IMF	2008

\*Please note that where there have been several iterations or renewals of agreements only the most recent one is listed

Source: Adapted from Telljohan et al., 2009, p.30

## **6. AVAILABILITY OF INFORMATION**

Sources that were relied upon for information on FDI flows and incidences and characteristics of MNEs were the websites of the OECD and UNCTAD. The World Bank, IMF and World Trade Organisation websites were also investigated but the information available was not so relevant. The sources for academic research were through two electronic databases: Google Scholar and Business Source Premier (EBESCO). As the research uses varying terms to indicate organisations that operate across multiple countries, the terms MNEs, multinationals, TNCs, MNCs, FDI and export zones were all used as search terms along with the keywords in these databases. The searches were limited to research published from 2007 onwards. However, it must be noted that despite this limitation some of the areas covered by the Declaration had almost no information available as mentioned below.

There is plenty of information on global FDI flows, largely available from UNCTAD and the OECD. The OECD produced an annual report in 2008 on the OECD guidelines for MNEs. This report addresses many of the aspects of the ILO Declaration, with a focus on OECD countries. Furthermore, there appears to be a growing academic interest in the effect of MNEs on local employment and employment practices in host countries. Information on trade union issues such as consultation, examination of grievances and settlement of industrial disputes is not as readily available. Research tends to be concentrated in large economies (Collings, Gunnigle & Morley, 2008) and/or OECD countries which poses obvious limitations and while more research is being undertaken in developing country MNEs there is little on least developed countries (Cuervo-Cazurra & Genc, 2008). The research is also criticised because of a lack of representativeness in research on MNEs with bias towards 'largest, most global, well-known, US based manufacturing firms' (Lavelle, 2008, p.51), but also with small samples and only partial coverage of MNEs.

However, overall a reasonable range of countries is included, from Australasia, Europe, North and South America and Asia. There is less research on Africa. Some other obvious gaps are information on MNEs or FDI and their impact on occupational health and safety, equality of opportunity and minimum age of work, or child labour.

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