

# Multinationals versus Domestic Firms: Wages, Working Hours and Industrial Relations<sup>1</sup>

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## 1. Introduction

In the globalizing world economy activities of multinational enterprises (MNEs) have growingly pervaded the economies of many countries. In the 1980s and 1990s foreign direct investment (FDI), the main channel of international expansion for MNEs, showed an unequalled growth with yearly rates of 20-40%, turning in the 2000s into a highly instable growth pattern. In 2001, influenced by the economic downturn in the US, the upward trend in FDI turned abruptly into a fall of over 40%. Then, after three ailing years, in 2005-2007 FDI growth showed a strong rebound, with yearly increases in inflow of 33-47%.<sup>2</sup> In the course of 2007 unmistakable signs of a slow-down appeared, and in early 2008 UNCTAD noted that the prospects for notably FDI flows to and from developed countries deteriorated.<sup>3</sup> Under the actual conditions of the world in economic and financial crisis, a large fall in FDI can safely be forecasted. Yet, these conditions do not take away from the likelihood that inward and outward FDI have had a substantial impact on wages and working conditions in the European Union. This paper aims to present and discuss recent evidence on the effect of FDI, by comparing wages, working conditions, working hours and industrial relations in MNE subsidiaries and non-MNE (domestic) firms in seven countries: Belgium, Finland, Germany, the Netherlands, Poland, Spain, and the United Kingdom. We derive our data from the continuous *WageIndicator* web-survey.

We start in outlining the various patterns, forms and motives of expansion of MNEs, as these may well have diverging effects on the labour market position and wages of various categories of workers. Second, we go into the *WageIndicator* data on which this paper is based. We then treat wages and employment in MNEs respectively domestic firms; we give ample attention to the widespread academic debate and available evidence on the effects of FDI on wages and employment in both home and host countries, before presenting our own evidence. In the next sections, we will present evidence on working hours, working conditions and industrial relations based on the *WageIndicator* data. As in these three fields our evidence is rather unique, it does not make sense to search for comparisons with others' evidence. We end up with some conclusions, in which we emphasize the importance of national industrial relations and national competitive structures.

## 2. Patterns of expansion of MNEs

After the creation of an international supply chain of agricultural products, which can be traced back to the origins of the Dutch VOC and the British East India Company in the 1700s, notably US manufacturers began to move to foreign countries as soon as they had an adequate departmental structure in place.<sup>4</sup> In 1867, Singer's Glasgow sewing machine factory marked the first market-seeking investment abroad. The renewed rush in FDI in the 1950s and 1960s was initiated by US enterprises, grounded on their size and new multinational structures, but it turned into a race with European and Japanese competitors. New forms and motives of FDI showed up. Since the 1960s, with the advance of information and communication technologies and lowering transport costs as catalysts, a growing number of MNEs systematically fragmented their production and relocated stages abroad,

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<sup>2</sup> UNCTAD (United Nations Conference on Trade and Development) (2001, 2005, 2008) *World Investment Report 2001 (2005, 2008)*. New York / Geneva. FDI growth has been measured in current prices.

<sup>3</sup> UNCTAD, 2008, *op. cit.*, 78.

<sup>4</sup> Alfred D. Chandler jr (1962) *Strategy and Structure. Chapters in the History of the Industrial Enterprise*. Cambridge, MA / London: The M.I.T. Press, 20-41.

aiming at exploiting cross-country cost differentials. Labour cost differentials were an important driver in these “runaway industries”.<sup>5</sup>

This foreign relocation of manufacturing activities can be called material offshoring, whereas service offshoring relates to the foreign relocation of service tasks, like financial and call centre operations. The relationship between offshoring and the activities abroad of MNEs is not exhaustive. Offshoring can also take place through arm’s length contracts with foreign suppliers, today usually referred to as international outsourcing. In the 1980s contractual relations with foreign suppliers emerged as the main form of internationalization in the buyer-dominated chains, catering for the needs of large retailers and clothing and sportswear manufacturers. Catalyst in the development of such supply chains has been the rise of the US-based retail giant Wal-Mart, that has arguably been called “the template business standard for a new stage in the history of world capitalism”.<sup>6</sup> Finally and most recently, skill-seeking emerged as a new motive for FDI. In the 1990s notably German MNEs tended to be attracted by Central and East European Countries (CEECs) with relatively abundant supplies of skilled labour.<sup>7</sup> Labour market shortages at home may have contributed substantially to this search,<sup>8</sup> but a more political-economic interpretation may well add the exertion of managerial pressure on labour costs through confronting workers and their representatives with “exit options”.<sup>9</sup>

Offshoring through FDI can be understood as vertical FDI, whereas horizontal FDI means the replication abroad of the same activities as performed domestically with the aim of gaining advantage in the (final) markets of host countries. Material and servicing offshoring as well as horizontal and vertical offshoring respectively differ in their labour market i.e. wage effects.<sup>10</sup> Notably the vertical variant of material offshoring may tend to deteriorate home country demand for workers with low or medium levels of education. Studies of developments in the 1980s and 1990s in British,<sup>11</sup> Swedish<sup>12</sup> and German<sup>13</sup> manufacturing confirm that material offshoring enlarged the so-called skill premium and was instrumental in increasing wage inequality. It has to be added that in the current global crisis the state of FDI cannot be separated neither from the growing dominance of shareholder value approaches of corporate governance and massive capital movements fuelled by the ‘financialisation’ of the economy, nor from pure greed and macho behaviour, without the corresponding development of regulation at appropriate (global, European) levels.<sup>14</sup>

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<sup>5</sup> Gerald K. Helleiner (1973) Manufactured Exports from Less-Developed Countries and Multinational Firms, *The Economic Journal*, 83(329): 21-47.

<sup>6</sup> Nelson Lichtenstein (2006) Wal-Mart: A Template for Twenty-First-Century Capitalism, in Nelson Lichtenstein (ed.) *Wal-Mart. the Face of Twenty-First-Century Capitalism*. New York-London: The New Press, 3-30, here: 4.

<sup>7</sup> Sascha O. Becker, Karolina Ekholm, Robert Jäckle, Marc-Andreas Muendler (2005) Location Choice and Employment Decisions: A Comparison of German and Swedish Multinationals, *Review of World Economics*, 141(4): 693-731, here: 721.

<sup>8</sup> Claudia M. Buch, Alexander Lipponer (2005) Business Cycles and FDI: Evidence from German Sectoral Data, *Review of World Economics*, 141(4): 732-759.

<sup>9</sup> Damian Raess (2006) *Hidden Political Economy of Globalization: The Transformation of Industrial Relations in Germany and Brazil*. diss. University of Amsterdam.

<sup>10</sup> Rosario Crinò (2007) *Offshoring, Multinationals and Labor Market: A Review of the Empirical Literature*. Milano: CESPRI, Working Paper 196.

<sup>11</sup> Alexander Hijzen, Holger Görg, Robert C. Hine (2005) International Outsourcing and the Skill Structure of Labour Demand in the United Kingdom, *The Economic Journal*, 115: 860-878.

<sup>12</sup> Karolina Ekholm, Katariina Hakkala (2005) *The Effect of Offshoring on Labor Demand: Evidence from Sweden*. Stockholm: The Research Institute of Industrial Economics (IUI), Working Paper No. 654.

<sup>13</sup> Martin Falk, Bertrand M. Koebel (2002) Outsourcing, Imports and Labour Demand, *Scandinavian Journal of Economics*, 104(4): 567-586; Ingo Geishecker, Holger Görg (2004) *International outsourcing and wages: Winners and losers*. DIW Berlin: paper.

<sup>14</sup> Cf. Andrew Watt (2008) The economic and financial crisis in Europe: addressing the causes and the repercussions, *European Economic and Employment Policy Brief (ETUI-REHS)*, No. 3 – 2008.

### 3. The *WageIndicator* data

As said, our data stem from the continuous *WageIndicator* web-survey. This survey is building an ever-growing dataset with information on wages, benefits, and other labour conditions, such as working hours, contracts, jobs and job levels, training, and collective bargaining coverage. The WIBAR-2 project included 12 EU member states: Belgium, Denmark, Finland, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain, Sweden, and the UK. These 12 countries accounted for 91% of the total FDI inflow in the EU in 2007, 85% in 2006 and even 96% of the EU total in 2005. In these 12 countries over 150,000 wage-earners yearly complete the *WageIndicator* questionnaire. For various reasons we were not yet able to gather enough wage data as to allow for detailed analyses for Denmark, France, Hungary, Italy, and Sweden. The remaining seven countries jointly form still a considerable economic force, accounting for roughly two-third of the EU's total FDI inflow: 61% in 2007, 56% in 2006 and 71% in 2005.<sup>15</sup>

Our reporting of the wage effects of FDI primarily goes back on the question in this web-survey, posed in all countries at stake, whether the worker's firm has more than one location, and if so, if this is located in the country at stake or abroad. For the purpose of this paper, we define a MNE as a company that has one or more locations abroad, as such self-defined by the *WageIndicator* respondents. In our analyses we have linked the answers on this question given during the year 2007 and the first half of 2008 with the answers of the same individuals concerning wages and working conditions in MNEs and domestic firms. We did so for five industries: metal and electronics manufacturing; finance and call centres; transport and telecom; information technology (IT), and the retail industry.

Analyses have been performed for 55,111 respondents, divided across countries and industries as shown in Table 1.

**Table 1** *Number of WIBAR-2 observations by country and industry, 2007 – 1st half 2008*

	BE	FI	DE	NL	PL	ES	UK	Total	Percent
Metal & electronics manufacturing	1,167	952	7,041	5,383	314	541	1,000	16,398	29.8%
Retail	832	438	2,307	4,917	307	804	1,163	10,768	19.5%
Finance & call centres	828	207	1,581	3,626	559	413	1,304	8,518	15.5%
Information Technology	1,214	694	1,393	3,292	588	1,329	1,034	9,544	17.3%
Transport and telecom	855	518	2,186	4,485	284	605	950	9,883	17.9%
Total	4,896	2,809	14,508	21,703	2,052	3,692	5,451	55,111	100.0%
Percentage	8.9%	5.1%	26.3%	39.4%	3.7%	6.7%	9.9%	100.0%	

Table 2 (next page) gives an overview by country and industry of the percentages of respondents that, as described above, identified themselves as working for a MNE. Of all respondents, 41% did so; the same percentage results if we attach the same weight to each country. Consequently, 59% works for a domestic firm. Across industries, metals and electronics shows the largest shares of workers in MNE establishments, both overall (52% as unweighted average) and in all seven countries. The largest share here and across industries can be found in Belgium (65%). The Finnish share of 21% MNE workers in retail is the lowest we found.

<sup>15</sup> UNCTAD, 2008, *op. cit.*

**Table 2** *Percentage of workers in MNEs in total respondents by country and industry*

	BE	FI	DE	NL	PL	ES	UK	Ind. aver. (unw.)
Metal & electronics manufacturing	65	46	56	48	49	44	54	<b>52</b>
Retail	33	21	31	24	32	27	35	<b>29</b>
Finance & call centres	46	27	39	47	39	33	43	<b>39</b>
Information Technology	47	45	37	45	35	42	47	<b>43</b>
Transport and telecom	49	38	45	42	30	33	43	<b>40</b>
<b>Country average (unweighted)</b>	<b>49</b>	<b>36</b>	<b>42</b>	<b>41</b>	<b>37</b>	<b>36</b>	<b>44</b>	<b>41</b>

## 4. MNEs and domestic firms: wages and employment

### 4.1 FDI in home countries

We start this section discussing the literature on the wage and employment effects of outward FDI in the MNE *home* countries. We already introduced evidence on the home country effects of material offshoring. Till recently most studies did not present much evidence for the fear that MNEs have been substituting foreign for domestic jobs, particularly if it concerned FDI in low-wage countries. Following a vertical international division of labour, activities in their countries seemed complementary to the activities performed in the home country.<sup>16</sup> For the US quite some studies focusing on manufacturing concluded for the short run to limited substitution effects on employment and hardly traceable wage effects, and in the long run even to a positive impact of offshoring on the real value-added per low-skilled worker.<sup>17</sup> A new wave of studies on the home country effects of US service offshoring suggests that such offshoring has neither caused significant job insecurity nor wage losses for high-skilled US white-collar workers.<sup>18</sup> Yet, one of the authors admits that these studies only analyzed the expansion of already existing activities of US-based MNEs abroad and did not cover the effects of their expansion; in-depth research into these extensive margin or replacement effects of FDI seems non-existent.<sup>19</sup> On the other hand, the same author recently found for nine Western European countries

<sup>16</sup> Henrik Braconier, Karolina Ekholm (2000) Swedish multinationals and competition from high- and low-wage locations, *Review of International Economics*, (8)3: 448-461; Giovanni S.F. Bruno, Anna M. Falzoni (2003) Multinational corporations, wages and employment: do adjustment costs matter?, *Applied Economics*, 35: 1277-1290.

<sup>17</sup> Robert C. Feenstra, Gordon H. Hanson (2003) The Impact of Outsourcing and High-technology Capital: estimates for the United States 1979-1990, *Quarterly Journal of Economics*, 114: 907-940. Mihir A. Desai, C. Fritz Foley, James R. Hines Jr. (2005) *Foreign Direct Investment and Domestic Economic Activity*. Cambridge, MA: National Bureau of Economic Research, NBER working paper 11717; Karolina Ekholm, Karen-Helene Ulltveit-Moe (2007) *A New Look at Offshoring and Inequality: Specialization versus Competition*. London: Centre for Economic Policy Research, CEPR Working Paper No. 6402; Ann E. Harrison, Margaret S. MacMillan (2008) *Offshoring Jobs? Multinationals and US Manufacturing Employment*. Cambridge, MA: National Bureau of Economic Research, paper.

<sup>18</sup> Gordon H. Hanson, Raymond J. Mataloni, Jr., Matthew J. Slaughter (2005) Vertical Production Networks in Multinational Firms, *The Review of Economics and Statistics*, 87(4): 664-678; Mary Amiti, Shang-Jin Wei (2005) *Service Outsourcing, Productivity and Employment: Evidence from the United States*. London: London: Centre for Economic Policy Research, CPER Working Paper 5475; Rosario Crinò (2006) *Are US White-Collar Really At Risk of Service Offshoring*. Milano: CESPRI, Working Paper 183; Runjuan Liu, Daniel Treffler (2008) *Much Ado About Nothing: American Jobs and the Rise of Service Outsourcing to China and India*. Cambridge, MA: National Bureau of Economic Research, NBER Working Paper 14061.

<sup>19</sup> Crinò, 2007, *op.cit.*, 38.

that service offshoring exerts positive and robust effects on domestic productivity,<sup>20</sup> which does not correspond with considerable replacement effects.

Wage and employment effects may be more dramatic when MNEs based in high-income countries invest abroad horizontally, exporting high-skill activities to other countries of this kind. Such FDI can easily substitute labour at home. Swedish manufacturing has been mentioned as an example.<sup>21</sup> Yet Konings and Murphy, exploring wage cost differentials across 13 EU countries for 1993-1998, found substitution relationships to a limited extent, mainly significant for EU subsidiaries of northern European parent firms.<sup>22</sup> Authors in this stream of research argue that most likely negative effects on wages and employment are limited to the short run.<sup>23</sup> It has been argued that cost reduction and market-seeking in FDI of European MNEs are often intertwined – as may also be the case with horizontal and vertical FDI. The coexistence of forms and motives of FDI complicates predictions about MNE behaviour.<sup>24</sup>

There is proof for German manufacturing MNEs that firms change their presence abroad only infrequently, but that these changes give rise to rare but salient labour demand effects in response to permanent wage differentials across locations.<sup>25</sup> In line with this outcome, Checci *et al* found across 11 European countries that MNEs adjusted their labour demand faster and to a greater extent than domestic firms. MNEs create and destroy jobs faster than domestic firms, these authors argue, but they are able to adjust more smoothly to shocks affecting their labour demands.<sup>26</sup> Unfortunately it is not very clear to what extent institutional factors are into play here, and what impact variations in labour market flexibility and employment protection may have. The results of Checci *et al* have been confirmed for Germany and France. Analysis on German firm-level datasets learned that MNEs did not respond systematically more to wages and output than firms only active on the domestic market, and the persistence of employment of both firm types was similar.<sup>27</sup>

The literature provides evidence that FDI works more negatively on income equality in European countries with highly flexible labour markets. One route along which negative effects will work here is the larger volatility of MNE employment – or, in economic terms, the higher elasticities of labour demand of MNEs. Already in 2003, studies for Ireland<sup>28</sup> and the

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<sup>20</sup> Rosario Crinò (2008) *Service Offshoring and Productivity in Western Europe*. Milano: CESPRI, Working Paper 196.

<sup>21</sup> Pontus Braunerhjelm, Lars Oxelheim (2000) Does Foreign Direct Investment Replace Home Country Investment? The Effect of European Integration on the Location of Swedish Investment, *Journal of Common Market Studies*, 38(2): 199-221.

<sup>22</sup> Jozef Konings, Alan Patrick Murphy (2001) *Do Multinational Enterprises Substitute Parent Jobs for Foreign Ones? Evidence from European Firm-Level Panel Data*. London: London: Centre for Economic Policy Research, CEPR Working Paper No. 2972; Jozef Konings, Alan Patrick Murphy (2006) Do Multinational Enterprises Relocate Employment to Low-Wage Regions? Evidence from European Multinationals, *Review of World Economics*, 142(2): 267-286.

<sup>23</sup> Cf. Bruno, Falzoni, 2003, *op. cit.*, 1287.

<sup>24</sup> Becker *et al*, 2003, *op. cit.*, 699.

<sup>25</sup> Sascha O. Becker, Marc-Andreas Muendler (2006) *Margins of multinational labour substitution*. Frankfurt am Main: Deutsche Bundesbank. Discussion Paper Series 1: Economic Studies. No 24/2006, 44.

<sup>26</sup> Daniele Checchi, Giorgio Barba Navaretti, Alessandro Turrini (2003) *Adjusting Labour Demand: Multinational versus National Firms – A Cross-European Analysis*. London: London: Centre for Economic Policy Research, CEPR Discussion Paper No. 3751, 16.

<sup>27</sup> Claudia M. Buch, Alexander Lipponer (2007) *Volatile multinationals? Evidence from the labor demand of German firms*. Frankfurt am Main: Deutsche Bundesbank. Discussion Paper Series 1. Economic Studies No. 22/2007; Sascha O. Becker, Marc-Andreas Muendler (2007) *The effect of FDI on job separation*. Frankfurt am Main: Deutsche Bundesbank. Discussion Paper Series 1: Economic Studies. No 1/2007; cf. for France: Vanessa Strauss-Kahn (2003) *The Role of Globalization in the Within-Industry Shift Away from Unskilled Workers in France*. Cambridge, MA: National Bureau of Economic Research, NBER Working Paper 5958.

<sup>28</sup> Holger Görg, Eric Strobl (2003) The Impact of Multinational Companies on Firm Survival: The Case of Irish Manufacturing, *Scandinavian Journal of Economics*, 105: 581-595.

UK<sup>29</sup> showed that, controlled for a number of factors, employment in MNEs had been more at risk than jobs in domestic firms. As most recent plant closure evidence underlines, this definitely holds for “footloose” investments with few linkages with the local economies.<sup>30</sup>

## 4.2 FDI in host countries

There is a strand of literature on the likelihood of MNEs paying higher wages than domestic firms for comparable jobs, and on growing wage inequality in MNE *host* countries. For some years researchers’ attention was focused on the effects of FDI in developing countries. Consistently significant wage differentials were found between foreign and domestic enterprises, and hardly any evidence of wage spillovers of FDI leading to higher wages for domestic firms.<sup>31</sup> However, between developing and high-income countries forms, motives and approaches of MNE expansion may differ that much, as do economic, social and political conditions, that transplanting conclusions from the one country category to the other is quite risky. Most recently research has shed broader light on wage effects. Using a panel of over 100 countries for the period 1980 to 2000, Figini and Görg concluded that the relationship between inward FDI and wage inequality depends on the level of economic development. According to their results, in developed countries FDI inflows in manufacturing can be associated with larger wage inequality, though this effect decreases over time.<sup>32</sup> FDI effects in the UK have been most widely researched. Taylor and Driffield found the overall impact of FDI explaining on average 11% of British wage inequality in the period 1983 to 1992; by and large Hijzen confirmed these outcomes for 1993-98.<sup>33</sup>

Many empirical studies have established that MNEs also in developed countries pay a “wage premium” over wages of domestic firms for comparable jobs, and that this premium tends to be larger for high-skilled staff.<sup>34</sup> However, the most recent studies give rise to a growing number of reservations. They stress the short-term character of positive wage effects. For the high-income countries Germany,<sup>35</sup> Denmark<sup>36</sup>, Finland<sup>37</sup> and Norway<sup>38</sup> anyway rather small individual wage premia (1 – 5%) have been traced. Swedish research,

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<sup>29</sup> Francesca Fabbri, Jonathan A. Haskel, Matthew J. Slaughter (2003) Does Nationality of Ownership Matter for Labour Demands?, *Journal of the European Economic Association*, 1(2-3): 698-707.

<sup>30</sup> Donald Storrie, Terry Ward (2007) *Restructuring and Employment in the EU: the impact of globalisation. ERM Report 2007*. Dublin: European Foundation for the Improvement of Living and Working Conditions; Vera Glasner, Béla Galgóczi (2009) *Plant-level responses to the economic crisis in Europe*. Brussels: ETUI-REHS, Working Paper.

<sup>31</sup> Cf. Brian Aitken, Ann Harrison, Robert E. Lipsey (1996) Wages and foreign ownership. A comparative study of Mexico, Venezuela, and the United States, *Journal of International Economics*, 40: 345-371; Robert C. Feenstra, Gordon H. Hanson (1997) Foreign direct investment and relative wages: Evidence from Mexico’s maquiladoras, *Journal of International Economics*, 42: 371-393; Robert E. Lipsey, Fredrik Sjöholm (2004) Foreign Direct Investment, Education and Wages in Indonesian Manufacturing, in *Journal of Development Economics*, 73(1): 415-422.

<sup>32</sup> Paolo Figini, Holger Görg (2006) *Does Foreign Direct Investment Affect Wage Inequality? An Empirical Investigation*. Bonn: IZA. Discussion Paper No. 2336, 15.

<sup>33</sup> Karl Taylor, Nigel Driffield (2005) Wage inequality and the role of multinationals: evidence from UK panel data, *Labour Economics*, 12(2): 223-249; Alexander Hijzen (2007) International Outsourcing, Technological Change, and Wage Inequality, *Review of International Economics*, 15(1): 188-205.

<sup>34</sup> Besides references in earlier footnotes: Robert E. Lipsey (2002) *Host and home country effects of FDI*. Cambridge, MA: National Bureau of Economic Research, NBER Working Paper 9669; OECD (2008) Policy Brief. The Social Impact of Foreign Direct Investment, *OECD Observer*, July; for the UK: Sourafel Girma, David Greenaway, Katherine Wakelin (2001) Who benefits from Foreign Direct Investment in the UK?, *Scottish Journal of Political Economy*, 48: 199-133; Taylor, Driffield, 2005, *op. cit.*; Hijzen, 2007, *op. cit.*; for Germany: Geishecker and Görg, 2004, *op.cit.*

<sup>35</sup> Martyn Andrews, Lutz Bellmann, Thorsten Schank, Richard Upward (2007) *Foreign-Owned Plants and Job Security*. Nottingham: University of Nottingham Research Paper 2007/36.

<sup>36</sup> Nikolaj Malchow-Møller, James R. Markusen, Bertel Schjerning (2007) *Foreign Firms, Domestic Workers*. Cambridge, MA: National Bureau of Economic Research, NBER Working Paper 13001.

<sup>37</sup> Kristiina Huttunen (2007) The Effect of Foreign Acquisition on Employment and Wages: Evidence from Finnish Establishments, *The Review of Economics and Statistics*, 89(3): 497-509.

<sup>38</sup> Ragnhild Balsvik (2006) *Is Mobility of Labour a Channel for Spillovers from Multinationals to Local Domestic firms?* Oslo: NHH, Dept. of Economics, paper.

based on detailed matched employer-employee data, recently revealed a considerably smaller wage premium in foreign-owned firms than more aggregate studies traced. Foreign takeovers even tended to have no or even a negative effect on wages.<sup>39</sup> On the other hand, as indicated, MNE versus domestic wages in EU countries with flexible labour markets may behave differently. In the current crisis this is also likely to happen in the transition economies of the CEECs. After the fall of communism, FDI penetrated some CEECs quickly, leading to considerable growth in low-skill and resource-intensive industries but also more up-market, in car and electrical machinery production.<sup>40</sup> From the mid-1990s on a trend towards growing wage inequality linked up with inward FDI became visible, notably in the manufacturing industries of Hungary, Poland, the Czech Republic, and Slovakia.<sup>41</sup> Most likely this trend has been sharpened by the recent mass dismissals in CEEC plants of multinational car and electronics producers.<sup>42</sup>

The available literature suggests that in developed countries home and host country wage effects of FDI tend to work in the same direction. In high-income countries both inward and outbound vertical FDI will most likely give rise to wage differentials favouring notably skilled workers in MNEs and thus to growing wage inequality, though in the 2000s these effects seem to dry up and the wage effects of new FDI to decrease over time. Horizontal FDI already seem to deliver rather small wage premia, if any. In high-income countries with flexible labour markets, MNE wage premia on average seem lower and most likely lowering as well. Wage premia of inward FDI in CEECs may remain substantial, but may be shared among smaller groups of workers, thus contributing to growing income inequality.

### 4.3 Causes of wage differentials

We now go into possible causes of MNE wage differentials. The usual explanation for the wage premium paid in MNE subsidiaries is the productivity advantage of FDI over domestic firms. However, notably for high-developed EU countries with many home-based MNEs it can be questioned whether there is a “foreign ownership advantage”. For example, an in-depth study for Germany showed that, while German non-MNEs were less productive than foreign-owned firms, there was no such difference between German MNEs and subsidiaries of foreign MNEs. Thus, productivity spillovers could have two sources, foreign MNEs as well as home-based MNEs.<sup>43</sup> Others confirm with British data that the foreign ownership advantage is indeed by and large an MNE advantage.<sup>44</sup> Talking about an “MNE effect” seems more adequate. Moreover, “productivity” remains a very wide explanatory category. Advantages of MNEs in this field can be carried back to better production technology, superior supporting and intermediate technologies (IT, logistics), more intensive use of intermediate products, or better management techniques – the latter in itself representing an intricate category.<sup>45</sup> The relationship between higher MNE productivity and MNE size is

<sup>39</sup> Fredrik Heyman, Fredrik Sjöholm, Patrik Gustavsson Tingvall (2007) Is there really a foreign ownership wage premium? Evidence from matched employer – employee data, *Journal of International Economics*, 73: 355-376.

<sup>40</sup> A.o. Slavo Radosevic, Urmaz Varblane, Tomasz Mickiewicz (2003) Foreign direct investment and its effect on employment in Central Europe, *Transnational Corporations*, 12(1): 53-90; Dalia Marin (2006) *A New International Division of Labour in Europe: Outsourcing and Offshoring to Eastern Europe*. London: London: Centre for Economic Policy Research, CEPR Discussion Paper 5447.

<sup>41</sup> Peter Egger, Robert Stehrer (2003) International Outsourcing and the Skill-specific Wage Bill in Eastern Europe, *The World Economy*, 26(1): 61-72; Andzelika Lorentowicz, Dalia Marin, Alexander Raubold (2005) *Is Human Capital Losing from Outsourcing? Evidence for Austria and Poland*. London: Centre for Economic Policy Research, CEPR, Discussion Paper No. 5344, 19-20; Sándor Csengödi, Rolf Jungnickel, Dieter M. Urban (2008) Foreign Takeovers and Wages in Hungary, *Review of World Economics*, 144(1): 55-82.

<sup>42</sup> Glasner, Galgóczi, 2009, *op. cit.*

<sup>43</sup> Yama Temouri, Nigel L. Driffield, Dolores Anon Higon (2008) Analysis of Productivity Differences among Foreign and Domestic Firms: Evidence from Germany, *Review of World Economics*, 44(1): 32-54.

<sup>44</sup> Chiara Criscuolo, Ralf Martin (2005) *Multinationals and US Productivity Leadership: Evidence from Great Britain*. London: Centre for Economic Performance, CEP Discussion Paper 672, 3.

<sup>45</sup> Cf. Malchow-Møller *et al*, 2007, *op. cit.*, 5; Lipsey, 2002, *op. cit.*, 57.



not easy to grasp either. It is widely acknowledged that both MNEs and MNE affiliates are larger than their domestic competitors, but it stands to be seen whether these differences end up in productivity advantages. In technologically advanced industries, decomposition of productivity growth into technology and scale effects shows that the former are dominant.<sup>46</sup> Anyway, in our analysis we will control for establishment size.

The role of human capital in creating wage premia for workers in MNEs cannot be ignored, though the empirical evidence at this point is not overwhelming. The outcomes of Görg *et al* (2007) lend some support for a firm-specific human capital acquisition explanation: tenure (years of experience) may be important, as MNE wage premia are acquired over time though on-the-job training.<sup>47</sup> Yet, their evidence concerned Ghana, and the OECD counter-argument that these effects will most likely be smaller in developed countries, sounds logic.<sup>48</sup> On the other hand, it can be argued that wage premia based on vocational training may be substantial in countries with industry-wide vocational training institutions, like Germany, Belgium, Denmark and the Netherlands. Even in these countries the labour market argument may be valid: skilled workers may be attracted by working in an MNE by the prospect of receiving extensive training. Such labour market competition may contribute to pushing domestic firms into less profitable markets, with lower productivity<sup>49</sup> – and most likely lower wages. Thus, in our analysis we will also control for tenure and educational level of the workers involved.

It seems relevant to bring factors related to national industrial relations into the analysis as potential causes of wage premia. Critical labour sociologists have developed frameworks in which MNEs basically show two approaches to their activities in host countries, adaptive to the current industrial relations or innovative/transferring, the latter term indicating the managerial aim to transfer human resources (HR) and other management practices from home to host country.<sup>50</sup> Various and contradictory forces may be at stake here. On the one hand, with the spread of firms operating at an international level the location (establishment) level tends to increase in importance, which tendency can give rise to considerable variation in wages and working conditions.<sup>51</sup> On the other hand, in case of horizontal investment abroad MNEs either tend to replicate their production and management structures in the host countries or expand innovative and high-skill activities in these countries – or do both. Encouraged by EU-wide production and marketing strategies, the most productive MNEs seem to have put in place management systems and structures to diffuse “best practices” across locations in different EU member states, with important spill-overs for industrial relations: benchmarking of these practices may well diminish variation in HR practices and working conditions.<sup>52</sup>

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<sup>46</sup> For example, Girma and Görg (2006, *op. cit.*, 16) show for foreign take-overs in the UK electronics and food industries that positive effects on productivity growth are due to changes in technical efficiency, not to scale.

<sup>47</sup> Holger Görg, Eric Strobl, Frank Walsh (2007) Why Do Foreign-Owned Firms Pay More? The Role of On-the-Job Training, *Review of World Economics*, 143(3): 464-482.

<sup>48</sup> OECD, 2008, Policy Brief.

<sup>49</sup> As found for the US: Wolfgang Keller, Stephen R. Yeaple (2003) *Multinational Enterprises, International Trade and Productivity Growth: Firm Level Evidence from the US*. London: London: Centre for Economic Policy Research, CEPR Working Paper No. 3805.

<sup>50</sup> A.o. Tony Edwards (2000) Multinationals, international integration and employment practice in domestic plants, *Industrial Relations Journal*, 31(2): 115-129; Tony Edwards, Trevor Colling, Anthony Ferner (2007) Conceptual approaches to the transfer of employment practices in multinational companies: an integrated approach, *Human Resource Management Journal*, 17(3): 201-217.

<sup>51</sup> Winfried Ruigrok, Rob van Tulder (1995) *The logic of international restructuring*. London/New York: Routledge and Kegan Paul; Glenn Morgan, Peer Hull Kristensen (2006) The contested space of multinationals: Varieties of institutionalism, varieties of capitalism, *Human Relations*, 59(11): 1467-1490; Marta Kahancová (2007) One Company, Four Factories: Coordinating Employment Flexibility Practices with Local Trade Unions, *European Journal of Industrial Relations*, 13(1), 67-88.

<sup>52</sup> Keith Sisson, James Arrowsmith, Paul Marginson (2003) All benchmarkers now? Benchmarking and the “Europeanisation” of industrial relations, *Industrial Relations Journal*, 34(1): 15-31; Ingmar Björkman, Jon

National institutions seem to constrain the transfer of HR practices within MNEs, but it has also been argued that they are porous and present only partial and temporal barriers to home country practices.<sup>53</sup> EU legislation and EMU rule-setting have created EU-wide level playing fields for firms operating throughout the EU; recent research suggests that majorities of MNEs confirm to these new legal frameworks, adding to the OECD and ILO standards, and are even actively promoting workplace diversity and equal opportunities.<sup>54</sup> Such legislation and rule-setting, combined with the advance of the corporate social responsibility (CSR) ideology and related transparency mechanisms,<sup>55</sup> will logically put pressure on MNEs to avoid discrimination according to, among other things, gender and working hours. Domestic firms, being less under the impact of such mechanisms, may be more vulnerable as to create or maintain discriminative practices. These policy differences may, in turn, be another factor creating MNE wage premia. Therefore, our analysis will also control for possible wage discrimination against females and part-time workers.

#### 4.4 Evidence on wages

We undertook a systematic analysis of wage differentials between MNEs and non-MNEs, based on median gross hourly wages and taking into account the influence of five factors: besides establishment size, we used years of work experience (tenure) and educational level as indicators for human capital, as well as gender and working hours for the reasons described above. On this basis, we carried out regression analyses by industry to control for the influence of these five factors. In Tables 3a – 3e we present the outcomes of these analyses, including short comments.

**Table 3a Results of regression analysis in metal and electronics manufacturing by country**

	BE	FI	DE	NL	PL	ES	UK
Constant	2.727 ***	2.307 ***	1.954 ***	1.543 ***	1.719 ***	1.528 ***	2.081 ***
Work experience	0.038 ***	0.005	0.023 ***	0.041 ***	0.026 *	0.010	0.027 **
Work experience SQ	-0.001 *	-0.000	0.000 ***	-0.001 ***	0.000	0.000	-0.001 **
Female	-0.162	-0.181 ***	-0.126 ***	-0.147 ***	-0.148	-0.334 ***	-0.144 *
Working hours p.w. > 40	0.121	-0.004	0.045 **	0.024	-0.063	-0.044	0.011
Educ (1=low,...,5=high)	0.062 *	0.110 ***	0.135 ***	0.174 ***	0.245 ***	0.181 ***	0.069 *
MNE	0.152	-0.002	0.125 ***	0.099 ***	0.375 ***	0.177 **	0.141 *
Company > 100 empl.	-0.095	0.128 ***	0.168 ***	0.121 ***	0.006	0.042	-0.004
N	576	887	6500	4672	237	460	653
R square	0.052	0.152	0.167	0.255 ***	0.212	0.163	0.038

The results of our regression analysis for metal and electronics reveal that in five of seven countries there is a wage premium for working in MNEs if controlled for the five factors, though for Spain the influence is significant but not very strong and for the UK significant but rather weak. There are no significant differences for Belgium and Finland. The influence of working in a MNE is by far highest for Poland, followed by Spain and Belgium.

Our results for retail (next page) show that in five countries there is a wage premium for working in MNEs if controlled for the five factors. While for the Netherlands the influence is significant but rather weak, there are no significant differences for Belgium and Finland. The influence of working in a MNE is highest for Germany, then for the UK and Poland.

E. Lervik (2007) Transferring HR practices within multinational corporations, *Human Resource Management Journal*, 17(4): 320-335.

<sup>53</sup> Edwards *et al*, 2007, *op. cit.*

<sup>54</sup> Fabienne Fortanier, Ans Kolk (2007) On the Economic Dimensions of CSR: Exploring Fortune Global 250 reports, *Business & Society*, 46(4): 457-478.

<sup>55</sup> Rob van Tulder, Alex van der Zwart (2006) *International Business – Society Management*. London: Routledge; Fabienne Fortanier (2008) *Multinational Enterprises, Institutions and Sustainable Development*. diss. Amsterdam: University of Amsterdam.

**Table 3b Results of regression analysis in retail by country**

	BE		FI		DE		NL		PL		ES		UK	
Constant	2.606	***	2.214	***	1.870	***	1.247	***	1.406	***	1.473	***	1.980	***
Work experience	0.045	**	0.042	***	0.023	***	0.068	***	0.049	**	0.024	*	0.032	***
Work experience SQ	-0.001	*	-0.001	***	0.000	**	-0.001	***	-0.001	***	-0.001	*	-0.001	**
Female	-0.021		-0.116		-0.151	***	-0.083	***	-0.348	***	-0.129	*	-0.082	
Working hours p.w. > 40	0.155		0.047		0.044		0.135	***	-0.179		-0.002		0.101	
Educ (1=low,...,5=high)	0.098	*	0.047	*	0.084	***	0.120	***	0.285	***	0.083	***	0.015	
MNE	0.015		0.002		0.141	***	0.045	*	0.070		0.037		0.098	
Company > 100 empl.	-0.156		0.241	***	0.191	***	0.121	***	0.433	***	0.158	*	0.266	***
N	418		401		2014		3634		188		606		801	
R square	0.040		0.152		0.141		0.325		0.336		0.067		0.050	

**Table 3c Results of regression analysis in finance and call centres by country**

	BE		FI		DE		NL		PL		ES		UK	
Constant	2.601	***	2.152	***	1.925	***	1.557	***	0.960	***	1.184	***	2.252	***
Work experience	0.008		0.042	***	0.039	***	0.044	***	0.060	***	0.045	***	0.015	
Work experience SQ	0.000		-0.001	**	-0.001	***	-0.001	***	-0.001	***	-0.001	***	0.000	
Female	-0.172		-0.210	***	-0.122	***	-0.212	***	-0.126		-0.193	**	-0.077	
Working hours p.w. > 40	-0.093		0.114		0.126	***	0.136	***	0.132		0.185	*	0.102	
Educ (1=low,...,5=high)	0.185	***	0.065	*	0.126	***	0.184	***	0.336	***	0.171	***	0.053	
MNE	-0.027		0.079		0.155	***	0.083	***	0.187	**	0.274	***	0.088	
Company > 100 empl.	0.096		0.102		0.087	*	0.095	***	0.262	***	0.059		0.092	
N	395		198		1433		3047		386		339		884	
R square	0.078		0.278		0.191		0.327		0.286		0.225		0.023	

The analysis for finance and call centres shows a wage premium for working in MNEs if controlled for the five factors in four countries, though for Poland the influence is somewhat weaker. We found no significant differences for Belgium, Finland and the UK. The influence of working in a MNE is highest for Spain, followed by Poland and Germany.

**Table 3d Results of regression analysis in IT by country**

	BE		FI		DE		NL		PL		ES		UK	
Constant	2.556	***	2.128	***	1.979	***	1.731	***	1.974	***	1.326	***	2.119	***
Work experience	0.014		0.030	***	0.023	***	0.048	***	0.073	***	0.037	***	0.054	***
Work experience SQ	0.000		-0.001	***	0.000	***	-0.001	***	-0.002	***	-0.001	**	-0.001	***
Female	0.008		-0.110	**	-0.129	***	-0.177	***	-0.403	***	-0.146	***	-0.159	*
Working hours p.w. > 40	-0.007		0.102		0.065		0.043		-0.008		0.069		0.060	
Educ (1=low,...,5=high)	0.126	***	0.083	***	0.119	***	0.147	***	0.175	***	0.157	***	0.030	
MNE	-0.037		0.073		0.172	***	0.039		0.288	***	0.117	**	0.179	**
Company > 100 empl.	0.186	*	0.100	**	0.096	*	0.065		0.124		0.119	**	0.119	
N	613		644		1278		2869		349		1074		654	
R square	0.047		0.162		0.164		0.208		0.270		0.135		0.093	

The results of our analysis for the IT industry reveal that here in five countries a wage premium for working in MNEs shows up if controlled for the five factors. Whereas for the Netherlands the influence is significant but rather weak, there are no significant differences for Belgium and Finland. The influence of working in a MNE is highest for Poland, followed by the UK and Germany.

**Table 3e Results of regression analysis in transport and telecom by country**

	BE		FI		DE		NL		PL		ES		UK	
Constant	2.944	***	2.136	***	1.717	***	1.541	***	1.286	***	1.611	***	2.354	***
Work experience	0.025	*	0.015	*	0.026	***	0.041	***	0.057	***	0.018		0.003	
Work experience SQ	0.000	*	0.000		0.000	***	-0.001	***	-0.001	**	0.000		0.000	
Female	-0.216		-0.109	*	-0.085	*	-0.128	***	-0.171	***	-0.244	***	-0.006	
Working hours p.w. > 40	0.116		-0.015		-0.065	*	-0.019		-0.022		-0.111	*	-0.191	**
Educ (1=low,...,5=high)	0.089	**	0.082	***	0.163	***	0.157	***	0.295	***	0.099	***	0.034	
MNE	-0.142		0.024		0.161	***	0.067	***	0.243	*	0.165	**	-0.011	
Company > 100 empl.	0.005		0.116	**	0.220	***	0.134	***	0.051		0.151	*	0.190	**
N	416		464		1994		3651		193		507		625	
R square	0.077		0.107		0.223		0.215		0.224		0.150		0.032	

The results of our analysis show that for transport and telecom in four of seven countries there is a wage premium for working in MNEs if controlled for the five factors, though for Spain the influence is significant but not strong and for Poland rather weak. There are no significant differences for Belgium, Finland and the UK. The influence of working in a MNE is highest for Poland, followed by Spain and Germany.

Table 4 gives an overview of the results of our regressions, with the statistically significant differences printed **bold**.

**Table 4** *Hourly MNE wage premia (MNE-non-MNE):MNE x 100) after control for five factors, by country and industry*

	BE	FI	DE	NL	PL	ES	UK
Metal & electronics manufacturing	15.2%	-0.2%	<b>12.5%</b>	<b>9.9%</b>	<b>37.5%</b>	17.7%	14.1%
Retail	1.5%	0.2%	<b>14.1%</b>	4.5%	7.0%	3.7%	9.8%
Finance and call centres	-2.7%	7.9%	<b>15.5%</b>	<b>8.3%</b>	18.7%	<b>27.4%</b>	8.8%
Information Technology	-3.7%	7.3%	<b>17.2%</b>	3.9%	<b>28.8%</b>	11.7%	17.9%
Transport and telecom	-14.2%	2.4%	<b>16.1%</b>	<b>6.7%</b>	24.3%	16.5%	-1.1%

These outcomes are partly in line with the evidence from the literature as reported, partly they are not. The rather low to even negative MNE premia found for Finland confirm the evidence for the Nordic countries. Obviously, in this respect Belgium –with the exception of its metal and electronics manufacturing— can be included in this country category, as can the Netherlands, be it for the last country a bit less convincing. However, our findings for Germany, showing considerable MNE premia in all industries, are clearly in contradiction with recent other evidence for this country. The results for Poland, except for the retail industry showing large MNE premia, underline other findings that wage premia in CEECs may remain substantial. Again except for retail, the Spanish outcomes may be interpreted as a confirmation of what we said about the MNE premium in transition economies. The UK figures partly seem to confirm the lowering trend of MNE premia in high-income countries with flexible labour markets, though for metal and electronics and IT they do not.

## 5. MNEs and domestic firms: overtime and working hours

Table 5 (next page) shows our data for the differences between the percentages of workers receiving overtime compensation and working usually more hours than agreed in MNE and domestic firms, by country and industry, expressed in %-points. In a large majority of cases, 25 out of 35, a lower share of workers receive overtime compensation in MNEs than their colleagues in domestic firms do. In one case MNEs and domestic firms are at par, in nine cases workers in domestic firms receive less frequently overtime compensation. On the other hand, usually working more hours than agreed, that is working overtime, is considerably more widespread in MNEs than in domestic firms. We found this in 30 of 35 cases, with two exceptions in transport and telecom and one each in finance and call centers, IT, and retail. If we confront these findings with those on receiving overtime compensation, it means that the MNE wage premium calculated over *weekly* or *monthly* wages for considerable groups of workers in MNE establishments may be smaller than that presented earlier for *hourly* wages. This holds if the difference between the percentages receiving overtime compensation is less than that between the percentages working overtime. We found this for 26 of 35 cases.

**Table 5 Differences between percentage of workers receiving overtime compensation and working usually more hours than agreed in MNE and non-MNE firms (%-points), by country and industry**

		BE	FI	DE	NL	PL	ES	UK
<b>Metal &amp; electronics</b>								
Receiving overtime compensation	difference MNE-non-MNE	-6%	-7%	-12%	-17%	5%	-12%	-6%
Usual more hours than agreed	difference MNE-non-MNE	3%	9%	4%	8%	27%	4%	5%
<b>Finance &amp; call c.</b>								
Receiving overtime compensation	difference MNE-non-MNE	3%	6%	0%	-6%	10%	-3%	-3%
Usual more hours than agreed	difference MNE-non-MNE	17%	6%	5%	9%	-3%	1%	16%
<b>Transport &amp; telec.</b>								
Receiving overtime compensation	difference MNE-non-MNE	-5%	-13%	-10%	-9%	-10%	-4%	-13%
Usual more hours than agreed	difference MNE-non-MNE	6%	2%	3%	6%	-1%	-16%	8%
<b>Information Techn.</b>								
Receiving overtime compensation	difference MNE-non-MNE	5%	7%	-1%	-2%	1%	-2%	-1%
Usual more hours than agreed	difference MNE-non-MNE	4%	4%	10%	5%	-2%	9%	12%
<b>Retail</b>								
Receiving overtime compensation	difference MNE-non-MNE	-10%	19%	-1%	-10%	-12%	4%	-4%
Usual more hours than agreed	difference MNE-non-MNE	14%	5%	12%	10%	-4%	1%	9%

The above evidence on working overtime largely corresponds with our evidence on the length of the working week. Table 6 projects in first rows per industry, in %-points, the differences between percentages of workers usually working over 40 hours / week in MNEs and domestic firms, by country and industry; in second rows it does so, in hours, with the differences between average usual working hours/ week in MNEs and domestic firms.

**Table 6 Differences between percentages of workers usually working over 40 hours / week (%-points) and between average usual working hours/ week (hours) in MNE and non-MNE firms, by country and industry**

		BE	FI	DE	NL	PL	ES
<b>Metal &amp; electronics</b>							
usual working hours > 40	difference MNE-non-MNE	7%	3%	3%	5%	11%	-2%
aver. usual working hrs	difference MNE-non-MNE	2.3	-1.2	0.8	1.1	0.6	0.2
<b>Finance &amp; call centres</b>							
usual working hours > 40	difference MNE-non-MNE	9%	7%	13%	12%	5%	1%
aver. usual working hrs	difference MNE-non-MNE	1.7	1.5	2.4	4.0	1.8	-0.3
<b>Transport &amp; telecom</b>							
usual working hours > 40	difference MNE-non-MNE	2%	4%	-3%	4%	10%	-10%
aver. usual working hrs	difference MNE-non-MNE	-0.4	-0.2	-2.1	1.6	0.1	0
<b>Information Techn.</b>							
usual working hours > 40	difference MNE-non-MNE	5%	2%	9%	7%	3%	9%
aver. usual working hrs	difference MNE-non-MNE	0.6	0.7	1.6	1.3	1.3	0.6
<b>Retail</b>							
usual working hours > 40	difference MNE-non-MNE	3%	-1%	6%	4%	-16%	-9%
aver. usual working hrs	difference MNE-non-MNE	1.5	0.7	1.6	2.7	-1.1	-2.1

In a large majority of cases MNEs show both a larger share of workers usually working over 40 hours per week and a longer average usual working week. Along both yardsticks there are 8 exceptions to this rule in 35 cases, though they do not run fully parallel per country and industry. Concerning the share of those working long hours, retail shows most

exceptions (four), followed by metal and electronics and by transport and telecom (both two). The figure for retail in Poland is remarkable, indicating a 16%-points lower share of workers with long hours in MNEs, and a working week on average 1.1 hour shorter in MNEs. Spanish retail figures go in the same direction.

Regarding the incidence of long hours, the difference between MNEs and domestic firms is largest in finance and call centers (unweighted average 8.9%-points), followed by the IT sector (6.6%pts), metal and electronics (3.6), and transport and telecom (1.1). Retail shows the reverse outcome, with an incidence of long hours 2.0%-pts more in domestic firms. Finance and call centers and IT do not show any country exceptions to the 'larger share of long hours in MNEs' rule. As for countries, the Netherlands pops up with the largest difference (unweighted average 6.6%-points), followed by Belgium and Germany (both 5.6%-pts), while Spain shows the reverse pattern with a 2.2%-pts larger incidence in domestic firms.

## 6. MNEs and domestic firms: working conditions

Other than for wages and employment figures, evidence on differences between the performance of MNEs and domestic firms is especially scarce in this field. After reviewing the existing literature, Ekholm in 2004 concluded that "whether (the multinationals) offer better or worse working conditions is an issue that has not been explored in a systematic way"<sup>56</sup> In 2008 the OECD staff confirmed that still "very little is known about the impact of foreign ownership on non-wage working conditions"<sup>57</sup> Our WIBAR-2 project covered a number of aspects of job quality and working conditions, like working in dangerous conditions; work-stress related issues; the match between job and educational level; the incidence of promotion; the incidence of and respondents' expectations concerning reorganizations; job satisfaction; job security, and training. In this paper we concentrate on differences in outcomes between MNEs and domestic firms concerning work-related stress and reorganizations.

Concerning the incidence of work-related stress, we have got information for five of seven countries: Belgium, Germany, the Netherlands, Poland, and Spain. Table 7 (next page) shows the differences between scores on the four indicators of perceived work-stress we used, in MNEs and domestic firms by country and industry. We indicate the differences in %-points. One should keep in mind that a negative sign indicates a lower stress level in MNEs and a higher in non-MNEs.

First it has to be noted that the differences are mostly quite small, or non-existing: a '0' indicating no difference pops up in 30 of 100 cases. Substantial differences can mainly be found for Germany, notably in transport and telecom and IT. The outcomes concerning three indicators, 'finds job stressful', 'work mentally exhausting' and 'finds job boring', point in the direction of higher stress levels in MNEs, though not very convincing. Out of 25 cases, 'finds job stressful' gives 11 times a higher level for MNEs, 4 times a lower level and 10 times no difference. For 'work mentally exhausting' these figures are 13, 4 and 8 respectively, and for 'finds job boring' 11, 6 and 8. Especially the 'finds job boring' outcomes are rather industry-specific: note for example that in four of five cases in finance and call centres the perceived stress-levels are higher in MNEs, while in four cases in transport and telecom they are lower. The outcomes for the fourth indicator, 'Work physically exhausting', slightly point at higher levels in domestic firms, with respectively 9 times a higher score in MNEs, 12 times in domestics, and 8 times no difference. In transport and telecom physically

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<sup>56</sup> Cf. Karolina Ekholm (2004) Multinational enterprises and their effect on labour markets, in Bo Södersten (ed.) *Globalization and the Welfare State*. Basingstoke: Palgrave MacMillan, 74-95, here: 83.

<sup>57</sup> OECD / ILO Conference on Corporate Social Responsibility (2008) *Report. The Impact of Foreign Direct Investment on Wages and Working Conditions*. Paris, 23-24 June, 14.

exhausting work consistently scores higher in domestic firms, while in retail the results are indifferent or indicate a higher perceived level in MNEs.

**Table 7 Differences between scores on work-stress related issues in MNE and non-MNE firms (%-points), by country and industry**

		BE	FI	DE	NL	PL	ES	UK
<b>Metal &amp; electronics</b>								
Finds job stressful	difference MNE-non-MNE	0.1	-	0	0.1	0	0	-
Work physically exhausting	difference MNE-non-MNE	0	-	-0.2	-0.3	0.1	-0.3	-
Work mentally exhausting	difference MNE-non-MNE	0	-	0	-0.1	0.2	-0.2	-
Finds job boring	difference MNE-non-MNE	0	-	0	0	0.1	0.1	-
<b>Finance &amp; call centres</b>								
Finds job stressful	difference MNE-non-MNE	0	-	0	0	-0.1	-0.1	-
Work physically exhausting	difference MNE-non-MNE	0.1	-	0.1	0.1	-0.2	-0.1	-
Work mentally exhausting	difference MNE-non-MNE	0	-	1.0	0.2	-0.3	0.1	-
Finds job boring	difference MNE-non-MNE	0	-	1.0	0.2	0.3	0.3	-
<b>Transport &amp; telecom</b>								
Finds job stressful	difference MNE-non-MNE	0	-	-0.2	0.2	0	-0.3	-
Work physically exhausting	difference MNE-non-MNE	-0.3	-	-0.8	-0.1	-0.3	-0.2	-
Work mentally exhausting	difference MNE-non-MNE	0.1	-	0.4	0	0	0	-
Finds job boring	difference MNE-non-MNE	-0.1	-	-0.1	-0.1	0.1	-0.1	-
<b>Information Technology</b>								
Finds job stressful	difference MNE-non-MNE	0.1	-	0	0.1	0.2	0.2	-
Work physically exhausting	difference MNE-non-MNE	-0.1	-	2.0	0.1	-0.1	0.1	-
Work mentally exhausting	difference MNE-non-MNE	0	-	1.0	0.1	0.1	0	-
Finds job boring	difference MNE-non-MNE	0	-	1.5	0	0.3	0.1	-
<b>Retail</b>								
Finds job stressful	difference MNE-non-MNE	0.2	-	0.2	0.3	0	0.2	-
Work physically exhausting	difference MNE-non-MNE	0	-	0	0.1	0.2	0	-
Work mentally exhausting	difference MNE-non-MNE	0.2	-	0.1	0.2	0.1	-0.1	-
Finds job boring	difference MNE-non-MNE	-0.1	-	0	0	0.2	-0.1	-

As for countries, Spain shows the most outcomes with higher perceived work-stress in domestic firms (9 times), while for Poland (5 times, of which three in finance and call centres), Belgium (4), Germany (4, of which three in transport and telecom) and the Netherlands (4) these figures are considerably lower.

The second working conditions issue regards experiences with the incidence of reorganizations and respondents' expectations in this field. Table 8 (next page) exposes, in %-points, the differences between percentages of respondents reporting to have faced (at least one) reorganisation in the previous year, and percentages reporting to expect a reorganisation in the next 12 months, in MNEs and domestic firms, by country and industry. This data is available for five respectively four countries; in the Netherlands the question on expected reorganizations was not included in the survey for the period under study.

**Table 8 Differences between percentages reporting that organization faced reorganisation, and percentages reporting to expect a reorganisation in the next 12 months, in MNE and non-MNE firms (%-points), by country and industry**

		BE	FI	DE	NL	PL	ES	UK
<b>Metal &amp; electronics</b>								
Organisation faced reorganisation	difference MNE-non-MNE	15%	-	14%	12%	30%	-	12%
Reorganization expected in 12 m.	difference MNE-non-MNE	16%	-	18%	-	5%	-	8%
<b>Finance &amp; call c.</b>								
Organisation faced reorganisation	difference MNE-non-MNE	15%	-	11%	20%	12%	-	9%
Reorganization expected in 12 m.	difference MNE-non-MNE	19%	-	15%	-	3%	-	7%
<b>Transport &amp; telec.</b>								
Organisation faced reorganisation	difference MNE-non-MNE	0%	-	21%	9%	8%	-	10%
Reorganization expected in 12 m.	difference MNE-non-MNE	3%	-	26%	-	2%	-	13%
<b>Information Techn.</b>								
Organisation faced reorganisation	difference MNE-non-MNE	12%	-	18%	17%	21%	-	22%
Reorganization expected in 12 m.	difference MNE-non-MNE	13%	-	21%	-	6%	-	17%
<b>Retail</b>								
Organisation faced reorganisation	difference MNE-non-MNE	0%	-	8%	4%	-6%	-	10%
Reorganization expected in 12 m.	difference MNE-non-MNE	17%	-	9%	-	6%	-	13%

Concerning experienced reorganizations the evidence is clear and near-univocal: workers in MNEs report more often than their colleagues in domestic firms that ‘their’ organisation faced reorganisations in the previous year. The only exception in 25 cases is retail in Poland. Moreover, in Belgium transport and telecom and retail show no difference in this respect between MNEs and non-MNEs. As for industries, the largest differences between the outcomes for both categories can be found in the IT industry (unweighted average 18.0%-points), followed by metal and electronics manufacturing (16.6%-pts) and finance and call centers (13.4), whereas the differences are much smaller in transport and telecom (9.6) and especially in retail (3.2). Germany seems to be the most ‘reorganisation-prone’ country (unweighted average 14.4%-points), but the differences with Poland (13.3), the UK (12.6) and the Netherlands (12.4) remain rather small; only Belgium (8.4) scores substantially lower.

Concerning expected reorganizations, the outcomes are largely in line with those concerning previous reorganizations. Again, the evidence is univocal: in all four countries and five industries employees in MNEs reported more to expect a reorganisation in the year to come than their colleagues in domestic firms did. In Belgium and Germany the differences between MNEs and domestic firms concerning expected reorganisations were larger than the differences concerning previous reorganisations for all five industries. In Poland this was the case for four industries, in the UK for two. Compared to the outcomes on previous reorganisations, the scores for the various industries on expected reorganisations came much closer. Much more often than their colleagues in domestic firms, respondents in MNEs in transport / telecom and retail expected to be confronted with reorganisations.



## 7. MNEs and domestic firms: industrial relations

In this section we turn to three core issues in industrial relations: the incidence of trade union membership (union density); collective bargaining coverage, and the incidence of workplace employee representation. Table 9 shows the differences between percentages of scores on these three issues in MNEs and domestic firms by country and industry, all expressed in %-points. One should take notice that the data on union density regard seven countries, those on collective bargaining coverage five countries (excl. Finland and Poland), and those on employee representation six countries (excl. Finland).

**Table 9** *Differences between percentages being member of a trade union covered by a collective agreement, with employee representation, in MNE and non-MNE firms by country and industry*

		BE	FI	DE	NL	PL	ES	UK
<b>Metal &amp; electronics</b>								
Member of trade union	difference MNE-non-MNE	-1%	3%	7%	-1%	1%	1%	8%
Covered by collective agreement	difference MNE-non-MNE	17%	-	35%	-6%	-	17%	15%
Employee representation	difference MNE-non-MNE	33%	-	43%	40%	8%	23%	22%
<b>Finance &amp; call centres</b>								
Member of trade union	difference MNE-non-MNE	-4%	3%	-1%	2%	-1%	2%	4%
Covered by collective agreement	difference MNE-non-MNE	28%	-	8%	20%	-	12%	15%
Employee representation	difference MNE-non-MNE	32%	-	11%	30%	11%	20%	15%
<b>Transport &amp; telecom</b>								
Member of trade union	difference MNE-non-MNE	-13%	-3%	5%	-4%	-6%	1%	-4%
Covered by collective agreement	difference MNE-non-MNE	2%	-	26%	-6%	-	12%	1%
Employee representation	difference MNE-non-MNE	11%	-	35%	22%	-9%	19%	7%
<b>Information Techn.</b>								
Member of trade union	difference MNE-non-MNE	0%	2%	3%	0%	1%	5%	2%
Covered by collective agreement	difference MNE-non-MNE	18%	-	16%	16%	-	17%	-4%
Employee representation	difference MNE-non-MNE	23%	-	40%	38%	-3%	27%	10%
<b>Retail</b>								
Member of trade union	difference MNE-non-MNE	0%	-16%	3%	2%	0%	6%	7%
Covered by collective agreement	difference MNE-non-MNE	36%	-	31%	2%	-	25%	5%
Employee representation	difference MNE-non-MNE	27%	-	31%	32%	4%	37%	15%

Of the three industrial relations issues, the figures on union density are least in favour of workers in MNEs over domestic firms. In 22 of 35 cases union density is higher in MNEs than in domestic firms, in two cases they are at par and in 11 cases union density is lower in MNEs. These last cases are concentrated in transport and telecom, where in five of seven countries density is higher in domestic firms, sometimes considerably, up to 13%-points in Belgium. In the finance and call centre industry this is the case in three countries, in metal and electronics in two, in retail on one. In three Belgian industries union density is higher in domestic firms; in Finland, the Netherlands and Poland this is the case in two industries, in the UK in one industry.

Collective bargaining coverage shows a more positive picture for workers in MNEs. There are only three exceptions to the rule that coverage is higher in MNEs than in domestic firms: Dutch metal and electronics and Dutch transport and telecom, and IT in the UK. The difference in favour of MNEs is largest in retail (unweighted average 19.8%-points), followed by finance and call centers (16.6%-pts), metal and electronics (15.6), IT (12.6) and transport and telecom (7.0). As for countries, Germany shows the widest difference (unweighted average 23.2%-points), followed by Belgium (20.2), Poland (16.0), the UK (6.4), and the

Netherlands (5.2). One should be aware that all these averages do hide widely dispersed outcomes per country and industry.

Concerning workplace employee representation MNEs show the largest advantage for workers compared to domestic firms. In 11 cases this advantage even goes up to 30%-points and more. In only two cases employee representation was more widespread in domestic firms: in Polish transport and telecom and in the Polish IT sector. Regarding industries, metal and electronics has the largest difference in favour of MNEs (unweighted average 28.2%-points), with retail ranking second (24.3%-pts), IT third (24.2), finance and call centers fourth (19.8) and transport and telecom (14.2) last. As for countries, the Netherlands shows the largest average difference (32.4%-points, unweighted), with Germany (32.0) as runner-up, Belgium and Spain both ranking third (each 25.2), and the UK (6.4) and Poland (2.2) clearly in the lower ranks.

Calculated over the three industrial relations issues, IT and retail show the clearest advantages for workers in MNEs, with both only one negative sign and the highest averages. Transport and telecom shows the least advantageous picture, with seven (of 18) negative cases and the lowest averages. Metal and electronics manufacturing and finance and call centres take the middle positions.

Over the three issues, Spain is the only country with only differences in favour of MNEs, followed by Germany with one negative sign. In the Netherlands (4 of 15 negative cases), Poland (4 of 10) and Finland (2 of 5), MNEs show their industrial relations advantages for workers least clearly. Belgium and the UK take positions in between.

## 8. Conclusions

As we showed, our outcomes concerning wages and employment are partly in line with the evidence from the literature, partly they are not. After controlling for five factors, Finland, Belgium and the Netherlands show up with negative or rather small wage premia in MNEs over domestic firms. The results for Poland, except for the retail industry showing large MNE premia, underline other findings that wage premia in CEECs may remain substantial. Again except for retail, the Spanish outcomes may be interpreted as a confirmation of what we said about the MNE premium in transition economies. The UK figures seem to confirm the lowering trend of MNE premia in high-income countries with flexible labour markets, though for the metal and electronics and the IT industries they do not. However, our findings for Germany, showing considerable MNE premia in all industries, contradicted recent other evidence for this country.

In evaluating these outcomes, we went back to our evidence on notably relative wages and wage differentials by size (not shown here). Combinations of these figures indicate that especially in Belgium and Finland domestic firms in various industries maintain strong positions in the labour market. For Belgium this holds for domestic firms in retail and (at least in the period under scrutiny!) for the larger finance and call centre firms, in Finland for the domestic metal and electronics, retail and transport / telecom industries. In the Netherlands, domestic IT firms seem to have a rather strong labour market position too, as do domestic medium-sized and larger finance companies in Poland. Here, we touch upon issues rather neglected in the literature on MNE and FDI, i.e. on how MNEs are embedded in national industry and market structures, on their relationship with domestic enterprise, and how they compete in national labour markets.

Especially the outcomes for retailing and for transport and telecom need still another additional explanation. We found strong evidence that MNEs active in Belgian, Finnish, Polish and Spanish retail as well as in Finnish, Polish, Spanish and UK transport and telecom have taken resort to outright wage pressure. In discussing drafts of our evidence, trade union officials from Spain and the UK added up proof for this argumentation. Such outcomes cannot be discounted as simple size effects. They deserve to be linked up with

analyses of specific HRM practices of certain MNEs, for which in turn the relationship with the wider national industrial relations context deserves closer scrutiny too.

The combined results for receiving overtime compensation, working overtime and the length of the working week point at different contractual relations dominating in MNEs compared to domestic firms. Obviously, considerably larger shares of MNE employees are expected to work overtime without receiving compensation than those working for domestic firms; for many MNE employees, working overtime is “part of the deal”. Such contractual relations may presuppose a MNE wage premium, as a kind of general compensation. Yet, as we saw, especially in Finland and Belgium the incidence of such premia can no longer be taken for granted. Though the various pieces of evidence from the literature are difficult to compare quantitatively and over time, one may get the impression that more generally MNE wage premia are decreasing. In the field of working conditions, compensation mechanisms for long, not compensated working hours do not show up that clearly either. For work-stress related issues, working for MNEs is not clearly advantageous for workers; on the contrary, there is a slight tendency for stress levels to be higher in MNEs. MNE employees experienced more reorganizations in the previous year, and are expecting that to continue. So, against all odds, we found that evidently compensation can be found in industrial relations at company level, i.e. in the better conditions for workers’ representation in MNEs over domestic firms. Trade union density is already on average higher in MNEs, while collective bargaining coverage is more clearly so. Except partially for Poland, the most evident advantage for workers in MNEs over their colleagues in domestic firms can be found in workplace employee representation. In our view these industrial relations outcomes are highly striking, and ask for further exploration and underpinning.

MvK/KT