Multinational corporations

some key issues and challenges for employee
1. What (and who) they are?
2. Implications for employment
3. Implications for industrial relations
4. Some challenges
A definition

‘A multinational or transnational enterprise is an enterprise that engages in foreign direct investment (FDI) and owns or, in some way, controls value-added activities in more than one country.’ (Dunning & Lundan 2008: 3)

Problem: A threshold definition

- Many different types of MNCs
- Different degrees of transnationalization
- Boundaries? Different ways of exercising control (de jure, de facto)

Distinctive features: both cross-border production and transactions

1. Organises/coordinate multiple value activities across national boundaries
2. Internalises at least some of the cross-border markets for the intermediate products
<table>
<thead>
<tr>
<th>Corporation</th>
<th>Home economy</th>
<th>Industry</th>
<th>Assets</th>
<th>Sales</th>
<th>Employment</th>
<th>TNI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Foreign Total</td>
<td>Foreign Total</td>
<td>Foreign Total</td>
<td></td>
</tr>
<tr>
<td>General Electric Co</td>
<td>United States</td>
<td>Electrical &amp; electronic equipment</td>
<td>502 612 717 242</td>
<td>77 480 147 300</td>
<td>170 000 301 000</td>
<td>59.7</td>
</tr>
<tr>
<td>Royal Dutch Shell plc</td>
<td>Netherlands/United Kingdom</td>
<td>Petroleum expl./ref./distr.</td>
<td>296 449 345 257</td>
<td>282 673 470 171</td>
<td>75 000 90 000</td>
<td>76.4</td>
</tr>
<tr>
<td>BP plc</td>
<td>United Kingdom</td>
<td>Petroleum expl./ref./distr.</td>
<td>263 577 293 068</td>
<td>308 437 386 463</td>
<td>68 005 83 433</td>
<td>83.8</td>
</tr>
<tr>
<td>Exxon Mobil Corporation</td>
<td>United States</td>
<td>Petroleum expl./ref./distr.</td>
<td>214 231 331 052</td>
<td>316 686 433 526</td>
<td>49 496 82 100</td>
<td>66.0</td>
</tr>
<tr>
<td>Toyota Motor Corporation</td>
<td>Japan</td>
<td>Motor vehicles</td>
<td>214 117 372 566</td>
<td>142 888 235 200</td>
<td>123 655 325 905</td>
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<tr>
<td>Total SA</td>
<td>France</td>
<td>Petroleum expl./ref./distr.</td>
<td>211 314 228 036</td>
<td>197 480 256 732</td>
<td>61 067 96 104</td>
<td>77.7</td>
</tr>
<tr>
<td>GDF Suez</td>
<td>France</td>
<td>Utilities (Electricity, gas and water)</td>
<td>194 422 296 650</td>
<td>82 731 126 040</td>
<td>110 554 218 873</td>
<td>60.6</td>
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<tr>
<td>Vodafone Group Plc</td>
<td>United Kingdom</td>
<td>Telecommunications</td>
<td>171 941 186 176</td>
<td>65 448 74 089</td>
<td>75 476 83 862 e</td>
<td>90.2</td>
</tr>
<tr>
<td>Enel SpA</td>
<td>Italy</td>
<td>Electricity, gas and water</td>
<td>153 665 236 037</td>
<td>66 817 110 528</td>
<td>36 656 75 360</td>
<td>58.1</td>
</tr>
<tr>
<td>Telefonica SA</td>
<td>Spain</td>
<td>Telecommunications</td>
<td>147 903 180 186</td>
<td>63 014 87 346</td>
<td>231 066 286 145</td>
<td>78.3</td>
</tr>
<tr>
<td>Chevron Corporation</td>
<td>United States</td>
<td>Petroleum expl./ref./distr.</td>
<td>139 816 209 474</td>
<td>139 344 236 286</td>
<td>31 000 61 000</td>
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</tr>
<tr>
<td>E.ON AG</td>
<td>Germany</td>
<td>Utilities (Electricity, gas and water)</td>
<td>133 006 212 499</td>
<td>90 958 157 011</td>
<td>43 756 78 889</td>
<td>58.7</td>
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<tr>
<td>Eni SpA</td>
<td>Italy</td>
<td>Petroleum expl./ref./distr.</td>
<td>122 981 198 700</td>
<td>106 240 153 631</td>
<td>45 516 78 686</td>
<td>62.8</td>
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<tr>
<td>Arcelor Mittal</td>
<td>Luxembourg</td>
<td>Metal and metal products</td>
<td>117 023 121 880</td>
<td>93 679 93 973</td>
<td>197 149 260 523</td>
<td>90.5</td>
</tr>
</tbody>
</table>

(jan drakokoupil © etui multinational corporations 2012)
## The largest MNCs, by foreign employment, 2011

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Corporation</th>
<th>Home economy</th>
<th>Industry (c)</th>
<th>Assets (Foreign)</th>
<th>Sales (Foreign)</th>
<th>Employment (Foreign)</th>
<th>TNI (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Electric Inc.</td>
<td>United States</td>
<td>Electrical &amp; electronic equipment</td>
<td>77 480</td>
<td>147 300</td>
<td>170 000</td>
<td>59.7</td>
</tr>
<tr>
<td>2</td>
<td>Concorde SA</td>
<td>France</td>
<td>Non-metallic mineral products</td>
<td>49 786</td>
<td>64 267</td>
<td>145 994</td>
<td>75.2</td>
</tr>
<tr>
<td>31</td>
<td>Hutchison Whampoa Limited</td>
<td>Hong Kong, China</td>
<td>Diversified</td>
<td>77 291</td>
<td>92 788</td>
<td>206 986</td>
<td>81.4</td>
</tr>
<tr>
<td>67</td>
<td>Tesco PLC</td>
<td>United Kingdom</td>
<td>Retail &amp; Trade</td>
<td>41 084</td>
<td>80 197</td>
<td>199 038</td>
<td>41.7</td>
</tr>
<tr>
<td>14</td>
<td>ArcelorMittal</td>
<td>Luxembourg</td>
<td>Metal and metal products</td>
<td>117 023</td>
<td>121 880</td>
<td>260 523</td>
<td>90.5</td>
</tr>
<tr>
<td>10</td>
<td>Telefonica SA</td>
<td>Spain</td>
<td>Telecommunications</td>
<td>147 903</td>
<td>180 186</td>
<td>231 066</td>
<td>78.3</td>
</tr>
<tr>
<td>44</td>
<td>Hewlett-Packard Co</td>
<td>United States</td>
<td>Electrical &amp; electronic equipment</td>
<td>64 969</td>
<td>129 517</td>
<td>228 392</td>
<td>60.3</td>
</tr>
<tr>
<td>54</td>
<td>Veolia Environnement SA</td>
<td>France</td>
<td>Utilities (Electricity, gas and water)</td>
<td>52 657</td>
<td>70 066</td>
<td>225 767</td>
<td>68.2</td>
</tr>
<tr>
<td>3</td>
<td>Nestlé SA</td>
<td>Switzerland</td>
<td>Food, beverages and tobacco</td>
<td>116 130</td>
<td>121 257</td>
<td>318 301</td>
<td>96.9</td>
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<tr>
<td>49</td>
<td>International Business Machines Corp</td>
<td>United States</td>
<td>Electrical &amp; electronic equipment</td>
<td>57 819</td>
<td>116 433</td>
<td>308 287</td>
<td>62.1</td>
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<tr>
<td>72</td>
<td>Carrefour SA</td>
<td>France</td>
<td>Retail &amp; Trade</td>
<td>39 710</td>
<td>66 626</td>
<td>302 557</td>
<td>63.2</td>
</tr>
<tr>
<td>16</td>
<td>Volkswagen Group</td>
<td>Germany</td>
<td>Motor vehicles</td>
<td>115 081</td>
<td>221 486</td>
<td>277 105</td>
<td>61.8</td>
</tr>
<tr>
<td>69</td>
<td>Deutsche Post AG</td>
<td>Germany</td>
<td>Transport and storage</td>
<td>40 739</td>
<td>53 389</td>
<td>255 394</td>
<td>68.3</td>
</tr>
<tr>
<td>17</td>
<td>Siemens AG</td>
<td>Germany</td>
<td>Electrical &amp; electronic equipment</td>
<td>112 356</td>
<td>141 750</td>
<td>244 000</td>
<td>77.4</td>
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<tr>
<td>4</td>
<td>Wal-Mart Stores Inc</td>
<td>United States</td>
<td>Retail &amp; Trade</td>
<td>74 660</td>
<td>180 663</td>
<td>800 000</td>
<td>35.1</td>
</tr>
</tbody>
</table>

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What is the point of being a multinational?

- The ‘liability of foreignness’
- Product/service/knowledge can be offered internationally through market: licenses/patents, subcontractors, third-party distributors, franchising

- But market failure abound (knowledge, components, finance)
- Being transnational can be an advantage (rather than a liability)

Firms will engage in international production if
1. they possess **ownership advantages** in a particular foreign market;
2. the enterprise perceives it to be in its best interest to add value to these ownership advantages rather than sell them to foreign firms—**internationalization advantages**;
3. and if **locational advantages** make it more profitable to exploit its assets in a particular foreign location rather than at home.

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Why multinational: The eclectic OLI paradigm

The ownership-specific advantages (O) of an enterprise of one nationality over those of another can be derived from:

- (a) Possession of **intangible assets**. Product innovations, organizational and marketing systems, innovatory capacity, organization of work, noncodifiable knowledge; human capital; marketing, finance, know-how.
- (b) Advantages of **common governance**, including operational flexibility by offering wider opportunities for arbitraging, production shifting, and global sourcing of inputs.

Internationalization incentive advantages (I) (i.e. circumvent/exploit market failure):

- (a) Avoid search and negotiating costs.
- (b) Avoid costs of moral hazard and adverse selection, and to protect reputation of internalizing firm.
- (c) Avoid costs of broken contracts and ensuing litigation.

Location-specific advantages (L) are derived from:

- (a) spatial distribution of natural and created resources endowments and markets;
- (b) international transport and communication costs;
- (c) investment incentives and disincentives;
- (d) artificial barriers to trade in goods and services;
- (e) cross-country ideological, language, cultural, business, political differences.

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Why multinational: The eclectic OLI paradigm II

Organisational routes (I)
(Advantages of hierarchies compared to markets or inter-firm cooperation)

Managerial strategies

Government strategies

Transactional relationships

Outcomes

Competitive advantages of firms
(O-specific advantages)

Affecting the welfare of MNEs

Affecting the welfare of countries

Competitive advantages of countries
(L-specific advantages)

Source: Dunning & Lundan 2008: xxiv
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Implications: what makes MNCs specific

- Multinational: diversity of cultures, institutions (industrial relations systems), markets, wage & productivity levels
- Size
- O-specific advantages -> market power
  - Including wider opportunities of arbitraging (ability to relocate) -> power over labour
- Their nature (organizational model, strategy, size, degree of internationalization, ...) varies a lot
  - MNC type and market situation = OLI configuration + MNC strategy
There is no single MNC organizational model

Case A: International division organisation

- CEO
  - Pharmaceutical division
  - Dyes division
  - Agrochemicals division
  - International division
    - Pharma Co. (United States)
    - AgroChem (France)

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There is no single MNC organizational model (cont.)

Case B: Multidivisional global product organisation

CEO

Pharmaceuticals group
- Pharma Co. (United States)
- BioGen (United Kingdom)

Agrochemicals group
- Fertilizer Co. (United States)
- AgroBio (France)
There is no single MNC organizational model (cont.)

Case C: Matrix organisation

CEO

- Pharmaceuticals
  - Pharma Co. (United States)
- Agrochemicals
  - AgroChem (France)
- North America
- Europe
There is no single MNC organizational model (cont.)

Use D: Front-end/back-end organisation

- CEO
  - Business unit
    - R&D
      - Production
  - Business unit
    - R&D
      - Production
  - North America
    - Sales and marketing
  - Europe
    - Sales and marketing
    - Service
    - Service

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MNCs: implications for employment

Impact on home countries
- Foreign activities some substitution effects on domestic employment (in individual companies), outsourcing associated with increased demand for skilled labour, net employment effects likely marginally positive

Impact on host countries
- *Can* (not necessarily *do*) enhance indigenous human activities

Hence: the perspective of the economy (macro) and that of an enterprise/subsidiary very different, possible considerable sectoral job-losses even if aggregate effects neutral, contributing to inequality (skill premium)

Moreover: effects contingent on government policies (structural adjustment, ALMP, training), other contextual factors

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Impact on industrial/employment relations

Local management autonomy in employment relations?
- Traditionally HR and IR left to local management
- But: Often strong country of origin effect observed
- New HRM developments

Do IR matter for location decisions?
- Some econometric evidence that low unionization and flexibility preferred (particularly US MNCs), works councils possibly a positive effect
- but preferences complex, IR will be decisive only under specific conditions

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MNCs and collective bargaining: Destructive effects

- Tend to join employer association & own (better) company agreements, but variation
  - Cases of opt from sectoral agreements (Fiat)
  - New member states: MNCs avoid sectoral organisations
  - Cases where unions not recognised at new sites
- Key HRM innovators: pioneering flexible payment systems, working-time arrangements across Europe
MNCs and collective bargaining: Constructive effects?

- Indirect cross-border coordination through cross-border comparisons
  - labour costs, flexibility performance (management, but some unions)
  - productivity/employment protection (unions)
- Small, but growing number of transnational framework agreements
  - mainly vertically integrated value chain (auto, metal)
  - Often originates in employer practices (standardization, benchmarking, best practices)
- EWCs

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Obstacles to transnational collective bargaining

- **Structural**: incompatible IR systems, union structures (unwillingness to delegate power upwards)
- **Political**: neoliberal politics, weak ITU presence in WTO and the like
- **Social identity**: lack of identity with global representatives, solidarity on the international level, preoccupation with national problems
- **Power and information inbalances**
- Employer resistance & TU defense of EWCs prerogatives

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### Obstacles: an illustration (Bernaciak, 2010)

<table>
<thead>
<tr>
<th>German union: national solutions available</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>VW engine plants (employment issues)</td>
<td>MAN bus division</td>
</tr>
<tr>
<td></td>
<td>No cooperation: the Germans uninterested, as employment guarantees negotiable at the national level</td>
<td>No cooperation: relocation spurs national responses</td>
</tr>
<tr>
<td>No</td>
<td>GM (after 2004)</td>
<td>GM (until 2004)</td>
</tr>
<tr>
<td></td>
<td>VW engine plants (product allocation, production shifts, organizational support)</td>
<td>No cooperation: the Poles uninterested, as gains from local concessions higher than from transnational cooperation</td>
</tr>
<tr>
<td></td>
<td>Cooperation: reciprocal exchange</td>
<td></td>
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</tbody>
</table>