

# **The ILO's 1977 MNE Declaration & the Effects of Foreign Direct Investment & Multinational Enterprises on Labour 2005-2009**

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# Introduction

- Paper based on report for ILO on impact of MNEs and FDI on aspects of working conditions contained in 1977 Tripartite Declaration of Principles Concerning Multinational Enterprises & Social Policy
- Declaration ahead of its time, 2-3 decades before current interest in corporate social responsibility & because of its controversy took about 10 years to be formed & agreed upon

# 1977 Tripartite Declaration of Principles concerning MNEs and Social Policy

**Aim:** to encourage positive contribution of MNEs to economic & social progress through cooperation with tripartite partners

Key areas:

## 1. Employment (paras. 13-28)

- *employment promotion*

(Convention 122, Recommendation 122 re Employment Policy)

- *equality of opportunity & employment*

(C111 & R111 Discrimination in Respect of Employment & Occupation; C100 & R90 Equal Remuneration for Men & Women Workers for Work of Equal Value)

- *security of employment*

(R119 Termination of Employment at Initiative of the Employer)

# 1977 Tripartite Declaration of Principles concerning MNEs and Social Policy

2. **Training** (para. 29-32) (C142 & R150 Vocational Guidance & Vocational Training in Development of Human Resources)
3. **Conditions of Work & Life** (paras. 33-40)
  - *wages, benefits & conditions of work*  
(R116 re Reduction of Hours of Work; C110 & R110 Conditions of Employment of Plantation Workers; R115 Workers' Housing; R69 Medical Care; C130 & R 134 Medical Care & Sickness Benefits);
  - *minimum age*  
(C138 Minimum Age for Admission to Employment & Work & C182 Elimination of Worst Forms of Child Labour);
  - *safety & health*  
(Cs 115, 119, 136, 139, & Rs 114, 118, 144, 147 re specific hazards eg. guarding machinery, ionising radiation, benzene, cancer)

# 1977 Tripartite Declaration of Principles concerning MNEs and Social Policy

## 4. Industrial Relations (paras. 41-59)

- *freedom of association & the right to organise*  
(C87 Freedom of Association & Protection of Right to Organise; C98 Right to Organise and Collective Bargaining,
- *collective bargaining*  
(C98; C135 Protection & Facilities to be Afforded Workers' Representatives in Undertaking; C129 Communications between Management & Workers within the Undertaking)
- *consultation*  
(R94 Consultation & Cooperation between Employers & Workers; R129 Communications within the Undertaking)
- *Settlement of disputes & examination of grievances*  
(R130 Examination of grievances within Undertaking; R92 Voluntary Conciliation & Arbitration)

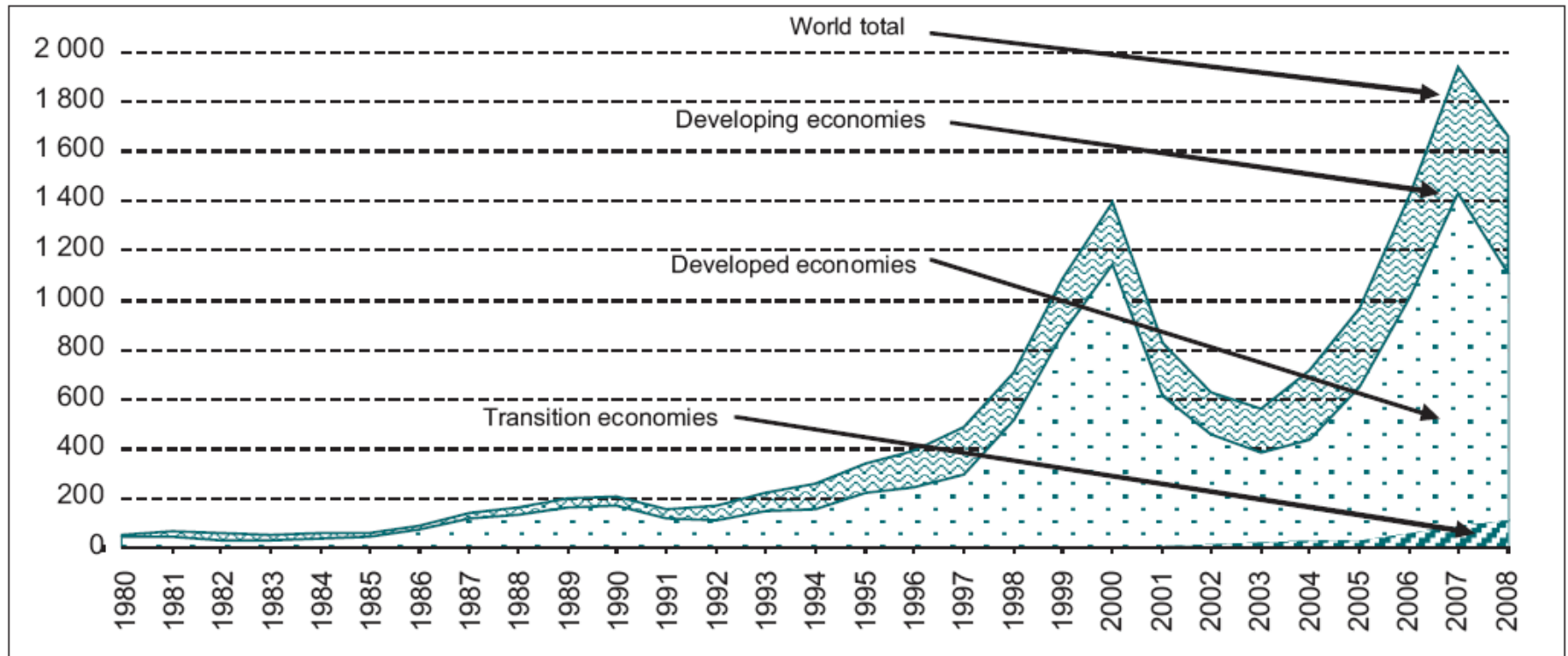
# Monitoring the 1977 Declaration

- Governing Body Subcommittee on MNEs
- 8 surveys of tripartite partners in each member state
- Most recent in 2004/5 for period 2000-3
- Declining response rate:
  - 8 tripartite reports
  - 44 government reports
  - 19 employer from organisations (12 with government, 3 with unions)
  - 13 workers' organisations' reports (3 with employers)
  - Often can't answer questions or statistics don't distinguish MNEs
- Revision of methodology
  - Team led by R. Markey & Nikolai Rogovsky (Geneva)
  - Revised survey, more targeted respondents including MNEs
  - Pilot surveys in Argentina & Ghana
  - Pilot survey of Oil & Gas Sector (David Peetz)

# Global FDI Trends

- Global FDI flows predominantly (70%) in OECD economies
- But recent changes in distribution of inward & outward FDI: China in particular & India becoming significant
- Global financial crisis impact:
  - Steady growth from trough to 2007 peak (\$1.9 trillion)
  - Considerable fall since 2007, & halved in 1st half of 2009
  - Greatest impact in developed countries, in inflow & outflow, especially Nth America & non-EU Europe in financial services, automotive industry, building materials, consumption goods
  - Catalyst for increased FDI towards developing countries
- Legislative changes in period primarily encourage FDI, but not 'race to bottom' policies

# FDI inflows, global and by group of economies, 1980 – 2008 (billions of dollars). Source: UNCTAD, 2008



# Multinational Enterprises

- 82,000 globally, with 810,000 foreign affiliates, 77 mill. employees, 1/3 all exports
- Increased diversity of national origin, industry sector, location
  - China, Malaysia, Korea, Mexico & Singapore have MNEs in world top 100
  - number of MNEs increased in services sector, e.g. electricity & water services, telecommunications, post privatisation
  - Location intensity: UK 1st, but China, Brazil, Mexico in top 20
- Financial asset concentration: largest 10 MNEs globally have half assets of top 100
- Emerging economy MNEs employ far fewer than top 100 globally but show greater growth in employment & assets than those from developed countries.

# Impact of FDI & MNEs on employment

- Varies across industries & countries
- May increase demand & price for skilled labour
- Foreign affiliates accounted for 3% global workforce 2008, but financial crisis led to reduced expenditure, & employment
- ***Security of employment:*** little research. Some research indicates links between legislative requirements, level of union representation in the company & security of employment. Turnover can be higher in MNEs than in domestically owned enterprises.

# Equality of opportunity & treatment in MNEs

- little research
- EEO increasingly recognised by MNEs for reputation & legal requirements
- **Increased diversity** seen as means to expand talent pool & improve motivation & commitment
- **EEO systems**: work/life balance (flexible hours, job sharing, child care) & employee demographic statistics
- **Increasingly used in Europe** (82% MNEs), but growing recognition in Asia as recruitment & retention tool
- UK MNEs normally pay above median wages but below median if employ predominantly women

# Training

- Research focus on training of expatriates for foreign affiliates
- Issues that arise with training and MNEs are:
  - Do MNEs increase the skill level of the host country?
  - Does demand for skills decrease in country of origin with increased internationalisation?
  - Patterns of skill development across developed & developing countries
- Tendency for MNEs to enhance skills only in countries with existing high levels of skills. Countries with low skills attract investors wanting cheap, low skilled labour
- Depending on country of origin, host country nationals have fewer opportunities for career development within MNEs
- Link with other HR policies: e.g. US MNEs more likely than Japanese to appoint host country national managers who need training.

# Conditions of work and life

- Number of MNEs meeting ILO MNE Declaration standards varies by region & sector, with factors such as:
  - Union membership being higher in OECD countries than developing
  - Health & Safety standards are met in industries with high risks
  - Size of company linked with increased likelihood of meeting standards
- Inward FDI has positive impact on wages, but not other working conditions, & largely confined to employees of MNEs only
- Working conditions tend to meet minimum legal standards in the host country, and parent companies do not export their practices to host countries with lower legal standards

# Conditions of work and life...

- **Child labour:** some evidence FDI does not increase demand, although there little research in this area
- **Health & Safety:** important to MNEs to protect reputation & avoid fatalities & regulatory fines.
- Clear differences between MNEs operating in developed & developing countries, with more evidence of health & safety systems in developed countries.
- Country of origin plays important role in level of health & safety standards. Developed country MNEs have higher health & safety standards.

# Industrial Relations

## Freedom of association and right to organise

- Strong difference between OECD-Europe & emerging markets, perhaps explained by tendency for MNEs to extend labour rights no further than host country legislative requirements.
- Research is largely focussed on Western based MNEs, and this is an important gap in the research as developing countries' industrial relations are often characterised by weaker support for freedom of association & the right to organise.
- Country of origin effect: US MNEs had lower unionisation rates in subsidiaries than other OECD countries.

# Freedom of association & right to organise...

- ***MNEs tend to be unionised or not***: high % members or none
- trend away from unionisation at new sites
- ***MNEs generally avoid unionism*** while adhering to local legislation. Union avoidance strategies include higher pay than local market rate; use of non-union representative participation; & direct communication with employees
- Given evidence of MNEs union avoidance, protection & enhancement of labour standards, & how achieved important
- Research suggests that while MNEs' willingness to engage in cooperative industrial relations is important, the local union is a key player in enhancing working conditions.

# Industrial Relations

## Collective Bargaining

- Research indicates that union activity in MNEs is limited One example is the inability to secure higher wages in highly unionised enterprises that are foreign owned
- Overall, MNEs have advocated decentralisation of bargaining arrangements.

# Industrial Relations

## Consultation

- MNE management or HRM style can indirectly affect the industrial relations framework in a company e.g. in Denmark a move away from cooperative atmosphere; in Ireland a move away from union recognition towards more unitarist types of management.
- Consultation tends to occur at relatively low level of engagement with management making decisions. The role of the union is seen as consultative, rather than part of joint decision making.

# Industrial Relations

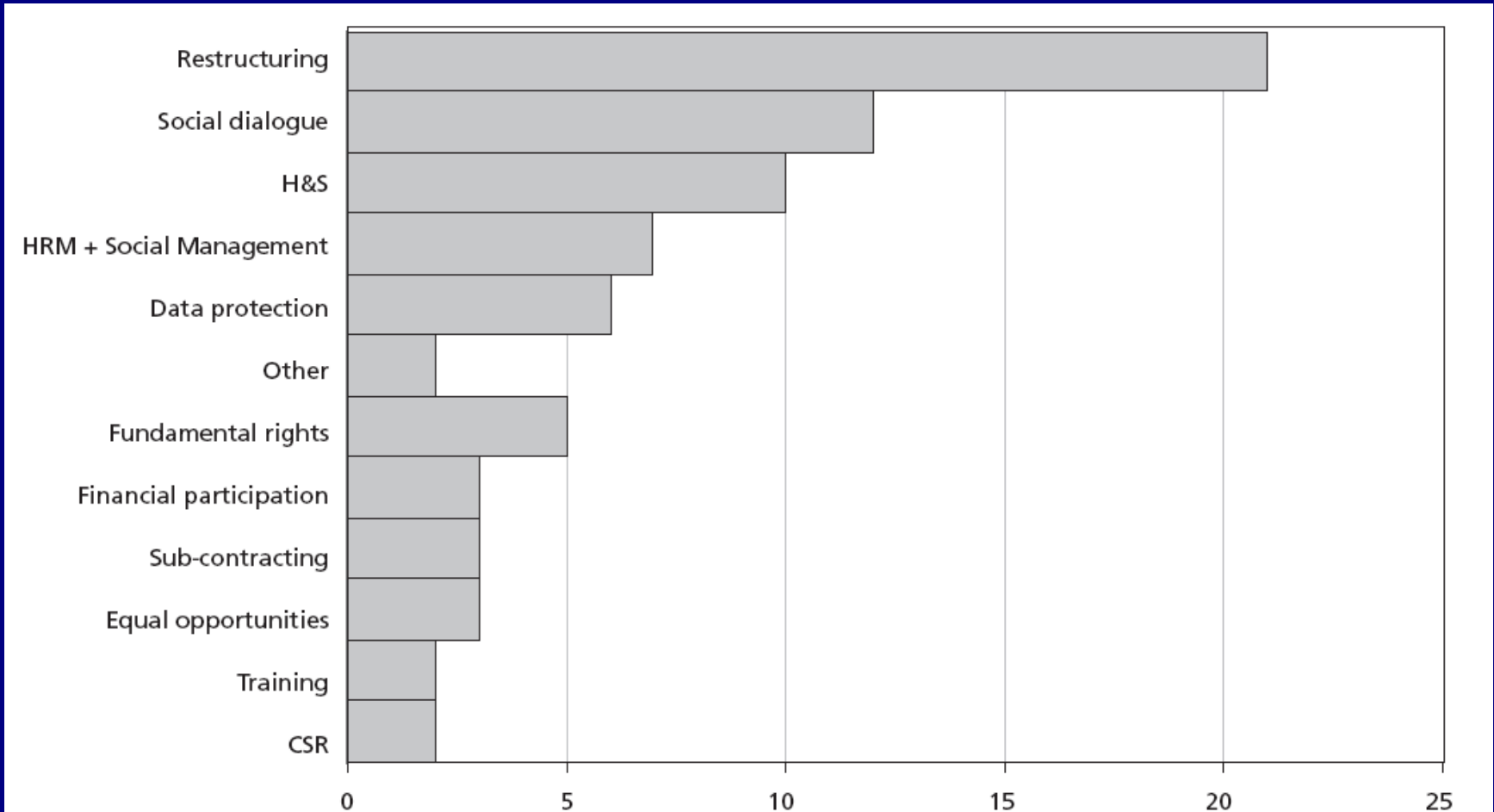
## Examination of grievances & settlement of industrial disputes

- Scant research investigating detail: the research predominantly investigates HRM practices overall and how they interact with host country industrial relations frameworks.
- Indications that MNEs tend to deal with employees on an individual basis on grievances rather than as a group or through the union, even for group grievances.

# Global Framework Agreements

- Agreements between global union federations and individual MNEs for their worldwide operations. Differs from codes of conduct in that they are decided upon jointly with unions, rather than unilaterally by the MNE
- also European Framework Agreements.
- 1st GFA with French company Danone 1988. By mid 2008 there were 68 GFAs covering approximately 5 million workers worldwide.
- Majority of GFAs agreed with MNEs headquartered in Europe with others in South Africa (2), Russia (1), New Zealand (1), Australia (1), Canada (1), USA (1).

# Content of European Framework Agreements, source Telljohan et al, 2009



## Global framework agreements...

- Cover minimum labour standards & usually at minimum encourage suppliers & subcontractors to comply.
- Over 50% contain clauses to strengthen union rights, & generally contain the rights of ILO Convention 87 ('Freedom of Association & Protection of the Right to Organise') & Convention 98 ('Right to Organise & Collective Bargaining').
- Implementation & monitoring of GFAs varies; some have no provision for this.
- GFAs heavily dependent on factors such as strong trade union presence, management willingness to cooperate with unions, & home country with cooperative industrial relations.

## Concluding comments

- Trends among MNEs to avoid unionisation & use minimum working conditions for legal compliance & to retain competitive edge in recruitment & skills development
- Not enough known about MNEs & EEO, minimum working age, employment security & how MNEs deal with grievances
- Positive effects of MNEs on employment & working conditions vary significantly, especially between developing & developed countries causing considerable inequity & disadvantage
- Importance of national legislative/regulatory environments
- ILO Declaration well ahead of its time & provides framework to monitor working conditions in MNEs & achieving decent working conditions by adherence to labour standards.

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