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[www.wageindicator.org](http://www.wageindicator.org)

## Analytical Report on the Social Effects of Foreign Direct Investment in five industries and seven EU countries, focusing on wages

### WIBAR-2 Report No. 8

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14 / 02 / 2009

**WAGEINDICATOR SUPPORT FOR TRADE UNION BARGAINING IN EUROPE (WIBAR-2)**  
Supported by the European Commission in its Industrial Relations and Social Dialogue Program  
Dec.2007-Nov.2008 (nr VS/2007/0534).  
Coordinated by the University of Amsterdam/AIAS  
(Amsterdam Institute of Advanced Labour Studies)

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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)<sup>1</sup>, 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% (UNCTAD, 2001, 2005, 2007, 2008).<sup>2</sup> However, 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 (UNCTAD, 2008, 78). Under the actual conditions of the world in serious 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 analytical report aims to present and discuss recent evidence on the effect of FDI on notably wages, by comparing wages 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. The underlying WIBAR-2 project has also included research concerning the effects of FDI on various dimensions of working conditions (work-related stress indicators; promotion, incidence of reorganizations, job (in)security; working hours; training incidence) and of industrial relations (union density, collective bargaining coverage, and incidence of workplace employee representation). Yet, from an analytical viewpoint it is more relevant to focus on wages. After she reviewed existing literature, Ekholm (2004, 83) concluded that “whether (the multinationals) offer better or worse working conditions is an issue that has not been explored in a systematic way”. More recently the OECD staff confirmed that still “very little is known about the impact of foreign ownership on non-wage working conditions” (OECD / ILO, 2008, 14). Against this backdrop, it is rather impossible to confront the

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<sup>1</sup> The definition of FDI of the OECD (Organisation for Economic Co-operation and Development), setting the world standard, is: “(...) a category of cross-border investment made by a resident in one economy (the *direct investor*) with the objective of establishing a lasting interest in an enterprise (the *direct investment enterprise*) that is resident in an economy other than that of the direct investor (.....) The lasting interest is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise.” Cf. OECD, 2008, 10.

<sup>2</sup> FDI growth has been measured in current prices.

findings on working conditions reported in the WIBAR-2 reports 1 to 6 with an already existing body of knowledge, and thus it makes sense to focus on wages in this report.

We start this report in outlining the various forms, motives and approaches 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 summarize the recent literature on wage differentials between MNE subsidiaries and domestic firms, and make an effort to relate this reading to the debate on their causes, mostly grouped in differences between MNEs and other firms in productivity; technology; scale of activities, and human capital. Like a small minority of authors on MNEs and FDI, we add factors situated in national industrial relations as potential causes. Third, we shortly go into the *WageIndicator* data on which this paper is based. Then, we will present our main pieces of evidence. Finally, we will return to the debate on wage differentials, and discuss notably the connection with industry structures and industrial relations. The report ends with an extensive list of references, containing all publications used in the course of the WIBAR-2 project and including thematic references.

## **2. 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, and subsequently to the early 19<sup>th</sup> century with the first efforts of Dutch and English mining entrepreneurs in the Indies and India, notably US manufacturers began to move to foreign countries as soon as they had an adequate departmental structure in place (Chandler, 1962, 20-41). In 1867, Singer's Glasgow sewing machine factory marked the first market-seeking investment abroad (Wilkins, 1970, 64-5). Their large size and oligopolistic position gave US firms incentives to invest directly abroad, in customers, suppliers and competitors. The first wave of US-based FDI occurred around 1900, followed by a second wave during the 1920s.

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 (Hymer, 1975). 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 some stages abroad, aiming at exploiting cross-country cost differentials. As the forerunner case of the US semiconductor manufacturers' "worldwide

sourcing” already showed, labour cost differentials were an important driver in these “runaway industries”, but definitely not the sole one; tax evasion was another (Helleiner, 1973).

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 (Helpman, 2006). 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, currently world’s largest profit-making company and employer. Wal-Mart has arguably been called “the template business standard for a new stage in the history of world capitalism”, and has been labeled the successor of US Steel, General Motors, IBM and Microsoft as templates of previous stages (Lichtenstein, 2006: 4<sup>3</sup>). Keystone in Wal-Mart’s strategy is exerting hard control over factor inputs, including control over US and international supply chains (Christopherson, 2007, 453).

Finally and most recently, skill-seeking emerged as a new motive for FDI. In the 1990s this began to occur from high-income European countries. Notably German MNEs tended to be attracted by some Central and East European Countries (CEECs) with relatively abundant supplies of skilled labour, while Swedish MNEs hardly showed such skill tracing behaviour (Becker *et al*, 2005, 721). Labour market shortages at home may have contributed substantially to this search (Cf. Buch and Lipponer, 2005), but a more political-economic interpretation may well add here (and implicit in other motives as well) the exertion of managerial pressure on labour costs of high-skilled workers through confronting workers and their representatives with “exit options”. As a recent University of Amsterdam dissertation concluded, in large German metal firms such “exit threats are an extremely pervasive part of employer strategy” (Raess, 2006, 62). Lately such threats of relocation have received great prominence in the media and have served to change public perceptions towards FDI negatively (Galgóczy *et al*, 2007, 23).

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<sup>3</sup> Hugill adds an earlier American retail giant, Woolworth’s, as well as Ford (Hugill, 2006, 8).

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 or neighbouring countries. Material and servicing offshoring as well as horizontal and vertical offshoring respectively will most likely differ in their labour market i.e. wage effects (Crinò, 2007, 2-4). Notably the vertical variant of material offshoring may tend to deteriorate demand for workers with low or medium levels of education in the home countries of MNE. Studies of developments in manufacturing industry concerning the 1980s and 1990s, both for the UK (Hijzen et al, 2005, covering 1982-1996), Sweden (Ekholm and Hakkala, 2005, covering 1995-2000), and Germany (Falk and Koebel, 2002, covering 1978-1990, as well as Geishecker and Görg, 2004, covering 1991-2000), confirm that in these countries material offshoring enlarged the so-called skill premium and was instrumental in increasing wage inequality. It was found that outward FDI relatively lowered wages of workers with low or medium levels of education, but exerted almost no effect on the most skilled.

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' and 'securitisation' of the economy, nor from pure greed and macho behaviour, without the corresponding development of forms of regulation at an appropriate (global, European) level (Cf. Watt, 2008b, 6-10). Since mid-September 2008, their implications in terms of job insecurity and unemployment are gradually revealed. Already in the years preceding the crisis the internationalization of trade and production, including benchmarking international management practice, has given rise to escalating levels of market uncertainty and to the permanent reorientation and reorganisation of companies in accordance with short-term goals. Against this backdrop, evaluating wage developments related to FDI remains of importance but has to be part of a wider story.

### **3. Literature on the wage effects of FDI**

#### **3.1 FDI in home countries**

We start this section discussing the literature on the wage effects of outward FDI in MNE *home* countries. We already introduced some evidence on the home country effects of material offshoring. Till quite 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 (Braconier and Ekholm, 2000; Bruno and Falzoni, 2003). For the US older studies on home country effects, like those of Brainard and Riker (1997) and Feenstra and Hanson (1999), 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. Recent empirical research focusing on manufacturing by and large arrives at the same conclusions (Desai *et al*, 2005; Ekholm and Ulltveit-Moe, 2007; Harrison and MacMillan, 2008). Some even conclude that American “vertical” FDI abroad has stimulated job growth at home, though horizontal expansion abroad leads to modestly lower employment in the US. The latter authors state that falling consumption prices and labour-saving technological development were more important factors (Harrison and MacMillan, 2008, 27-8).

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 (Hanson *et al*, 2005; Amiti and Wei, 2005; Crinò, 2006; Liu and Treffler, 2008). These outcomes seem to be in line with the confidence in the American institutions and their innovative potential in the confrontation with the “Asian tigers” that, to name one example, famous journalist Thomas Friedman (2004) displayed.<sup>4</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. And up till now, in-depth research into this so-called extensive margin or replacement effects of FDI seems non-existent -- though these effects may be substantial in view of the building of domestic economic capacity in China and India, not only in manufacturing but in services as well (Crinò, 2007, 38). On the other hand, the same author recently found for nine Western European countries that service offshoring exerts positive and robust effects on domestic productivity (Crinò, 2008): a result that 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, expanding innovative and high-skill activities to other countries of this kind; such activities can easily substitute labour at home. Swedish manufacturing has been mentioned as an example (Braunerhjelm and Oxelheim, 2000).

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<sup>4</sup> Though part of his appraisal is rendered out of date by recent events: “Coupled with America’s unique innovation-generating machines --universities, public and private research labs, and retailers-- we have the best-regulated and most efficient capital markets in the world for taking new ideas and turning them into products and services” – Friedman, 2004, 245. Critical views on the future of US employment in services have Friedman’s rather anecdotal evidence on US outward offshoring of services in common, but unfortunately nearly all refrain from a quantitative analysis (Cf. Ritzer and Lair, 2007).

Konings and Murphy (2001, 2006), 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. Authors in this stream of research argue that most likely negative effects on wages and employment are limited to the short run (Cf. Bruno and Falzoni, 2003, 1287). In an effort to include more “real world” elements in their analysis, Becker *et al* (2003, 699) argue that cost reduction and market-seeking in FDI of European MNEs are often intertwined – as may growingly also be the case with horizontal and vertical FDI. The coexistence of forms and motives of FDI complicates theoretical predictions about MNE behaviour. Anyway, Becker *et al* conclude that for German MNEs horizontal FDI has been stronger than cost reduction-driven FDI.

Another angle is chosen by Becker and Muendler (2006), for German manufacturing MNEs proving that firms change their multinational presence only infrequently, but that these changes give rise to rare but salient labour demand effects in response to permanent wage differentials across locations. In line with this outcome and with common beliefs, Checci *et al* (2003) 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. For any given wage increase, for example, in the longer run MNEs reduced total employment less than national firms. Unfortunately it is not very clear to date to what extent institutional factors are into play here, and what impact variations in, for example, labour market flexibility and employment protection may have. For Germany and France various studies confirm the results of Checci *et al*. 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 (Buch and Lipponer, 2007a; Becker and Muendler, 2007). Comparable results have been reported for France over an earlier period, 1977-1993. Obviously in France skill-biased technological change contributed much more to the deteriorating position of unskilled labour and to growing wage inequality during the period under study than vertical FDI did (Strauss-Kahn, 2003).

There are quite some indications that FDI has more negative effects in terms of income inequality in European countries with highly flexible labour markets. One route along which negative effects may work 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 (Görg and Strobl, 2003) and the UK (Fabbri *et al*, 2003) showed that here, 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 especially holds for “footloose” investments with few linkages with the local economies (Cf. Storrie and Ward, 2007).

### 3.2 FDI in host countries

There is a quickly expanding 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. They consistently found significant wage differentials between foreign and domestic enterprises, and hardly any evidence of wage spillovers of FDI leading to higher wages for domestic firms (Cf. Aitken *et al*, 1996, for Mexico, Venezuela, and the US; Feenstra and Hanson, 1997, for Mexico’s maquiladoras; Brown *et al*, 2003, for an overview; Lipsey and Sjöholm, 2004, for Indonesian manufacturing).

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 highly risky. There is no need for such a risky operation; most recently quite some research has shed light on wage effects of FDI in European host countries. For example, using a panel of over 100 countries for the period 1980 to 2000, Figini and Görg (2006) concluded that the relationship between inward FDI and wage inequality differs, depending 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. FDI effects in the UK have been most widely researched. For this country Taylor and Driffield (2005) found the overall impact of FDI explaining on average 11% of wage inequality in the period 1983 to 1992; by and large Hijzen (2007) confirmed these outcomes for the next six years, 1993-98. Girma and Görg (2007), covering the period 1980-1994, argue that in case of foreign take-overs the nationality of the acquirer matters. They found that both skilled and unskilled workers in the UK experienced on average a substantial wage increase following being taken over by a US firm, while no such effects were discernable following acquisitions by EU firms.<sup>5</sup>

In overlooking this field, we may conclude that the large majority of empirical studies have established that MNEs also in developed countries pay a “wage premium” over wages of domestic firms for comparable jobs (Besides earlier references, in general: Lipsey, 2002; OECD, 2008b; for the UK: Girma *et al*, 2001; for Germany: Geishecker and Görg, 2004, for Hungary: Earle and Telegdy, 2007). It has also been established this premium tends to be

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<sup>5</sup> For methodological reasons, their results for skilled and unskilled workers were not fully comparable.

larger for high-skilled staff (Taylor and Driffield, 2005; Hijzen, 2007), though here is some more counter-evidence (Girma and Görg, 2007). More generally it should be noted, that the most recent studies show a growing number of reservations. They stress the short-term character of positive effects on average wages. Recent studies anyway found only small individual wage premia (1 – 5%) for the high-income countries Germany (Andrews *et al*, 2007), Denmark (Malchow-Møller *et al*, 2007), Finland (Huttunen, 2007), and Norway (Balsvik, 2006). Due to composition effects Swedish research, based on detailed matched employer-employee data, recently revealed a considerably smaller wage premium in foreign-owned firms than earlier had been found in more aggregate studies. According to this research, foreign takeovers of Swedish MNEs even tended to have no or even a negative effect on wages (Heyman *et al*, 2007). For Portugal similar outcomes have been reported (Martins, 2004).

On the other hand, as we already indicated, MNE versus domestic wages in EU countries with flexible labour markets may develop differently. Next to the Anglo-Saxon countries, in the current crisis one may fear this to happen in the transition economies of Central and East European Countries (CEECs). After the fall of communism, FDI in most CEECs rose quickly, leading to considerable output growth in low-skill and resource-intensive industries but also more up-market in car and electrical machinery production. (Radošević *et al*, 2003; Fillat-Castejón and Woerz, 2005; Marin, 2006a). At the end of 2004, Poland, Hungary and the Czech Republic had attracted three quarters of FDI in the 10 new member states from the EU-15, mainly from Germany, France and Austria (Eurostat, 2007). Partly such FDI were greenfield investments with positive employment effects; take-overs went another course. During 1992-2001, foreign take-overs in Hungary led to considerable long-term wage premia, be it after a major initial reduction of the workforce (Csengödi *et al*, 2008). Already from the mid-1990s on, a trend towards growing wage inequality linked up with inward FDI became visible in these host countries, notably in the manufacturing industries of Hungary, Poland, the Czech Republic, and Slovakia (Egger and Stehrer, 2003; Lorentowicz *et al*, 2005; Marin, 2006b). Most likely this trend will be sharpened by the announced mass dismissals in CEEC plants of multinational car and electronics producers and their subcontractors (Cf. Glasner and Galgóczi, 2009).

Though the evidence from the literature is still rather dispersed, we seem able to conclude 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 seems to have slightly less positive effects, but the same trends over time may be discernable. 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 transition economies like the CEECs may remain substantial, but under pressure of the current crisis they may be shared among smaller groups of workers, contributing to further growing income inequality.

### **3.3 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. Most of the available strand of literature is based on comparing the performance of foreign and domestic firms in the US (Cf. Doms and Jensen, 1998) and the UK (Cf. Girma *et al*, 2001). 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 domestic MNEs (Temouri *et al*, 2008). Others “confirm with British data that the foreign ownership advantage is indeed by and large an MNE advantage” (Criscuolo and Martin, 2005, 3). Against this backdrop, it seems that talking about an “MNE effect” would definitely be more adequate.

However, “productivity” remains a very wide explanatory category. Following the footprints of Solow (1957), modern economic theory has emphasized productivity advantages through technology annex innovation as a major source of the comparative advantage of rich nations over others. Authoritative writers have applied this insight to the rise of MNEs and the expansion of FDI (Cf. Porter, 1990) What is more, technology and skills seem closely interconnected. MNEs are generally regarded as the main drivers of skill-biased technological change: such change favours skilled workers and thus looks like the predominant source of wage inequality. Moreover, it seems allowed to generalize the evidence from US manufacturing that the increase of skill levels largely occurs *within* rather than across industries (Berman *et al*, 1994) This does not imply that “technology” is an unidimensional category. For example, 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 a broad category (Cf. Malchow-Møller *et al*, 2007, 5; Lipsey, 2002, 57). Yet, just here the Achilles heels of many MNEs can be found, as they have

turned out to be not particularly good in managing their foreign i.e. global activities (Among many others: Gooderham and Nordhaug, 2003, 12).

The relationship between higher MNE productivity and their size --as a whole as well as of their establishments-- is not easy to grasp either: quite something remains here to explain (Helpman, 2006, 597). It is widely acknowledged that both MNEs and MNE affiliates are larger than their comparable 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. For example, based on an analysis of foreign take-overs in the UK electronics and food industries, Girma and Görg (2006, 16) show that positive effects on productivity growth are due to changes in technical efficiency, not to scale. Anyway, in our analysis of the wage effects of FDI next to this section 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. Yet, their evidence concerned FDI in Ghana, and the OECD (2008b, 5) counter-argument sounds logic that these effects will most likely be smaller in developed countries. 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. Moreover, even in these countries the labour market argument may be valid: skilled workers may be attracted by working in an MNE, notably by the prospect of receiving extensive training here. Such labour market competition may contribute to pushing domestic firms into less profitable market segments, with lower productivity (as found for US manufacturing: Keller and Yeaple, 2003) .– and most likely lower wages. Thus, in our analysis we will also control for tenure and educational level of the workers involved.

Although largely neglected by labour economists,<sup>6</sup> it seems relevant to bring factors related to national industrial relations into the analysis as potential causes of wage premia. Mainly critical labour sociologists have developed a framework 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

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<sup>6</sup> The only recent contribution of labour economists in the field taking account of industrial relations at company and establishment level, with employee-reported quality of employee-management relations and the absence / presence of specific work practices as central variables, is the cross-country analysis of labour policies in a large US-based manufacturing MNE: Freeman *et al*, 2007.

resources (HR) and other management practices from home to host country (Edwards, 2000; Galgoczi, 2003). 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, working conditions and employment practices (Ruigrok and Van Tulder, 1995; Morgan and Kristensen, 2006; Kahancová, 2007a, 2007b). 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<sup>7</sup> 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 may well diminish variation in HR practices and working conditions (Ferner, 1997; Sisson *et al*, 2003; Björkman and Lervik, 2007).

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 (Edwards *et al*, 2007). With the development of the EU the outcome of this “institutional duality” (Morgan and Kristensen, 2006, 1470) may be geared towards transferring such practice. EU legislation, on the economic as well as on the social side, and EMU rule-setting growingly create an EU-wide level playing field for firms operating in various member states. From a social viewpoint this can be turned into a positive development. Recent research outcomes suggest that majorities of MNEs confirm to these new legal frameworks, adding to the already existing OECD and ILO standards, and are even actively promoting workplace diversity and equal opportunities (Fortanier and Kolk, 2007). “The general advantage of domestic companies, of better information about their country (...)”, that Hymer (1975 (1960), 59) stressed over four decades ago, is rapidly fading away.

The development of EU legislation, combined with the advance of the corporate social responsibility (CSR) ideology and related transparency mechanisms (Van Tulder and Van der Zwart, 2006; Fortanier, 2008), will logically put pressure on MNEs to avoid discrimination according to, among other things, gender and working hours. Domestic firms, on the contrary, 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. Thus, our analysis will also control for possible wage discrimination against females and part-time workers.

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<sup>7</sup> Cf. for the assumption of higher productivity in horizontally expanding MNEs: Falzoni and Grasseni, 2005, 16.

Before turning to our evidence, we have to emphasize one caveat. Except for the last wave of American research on the home effect of service FDI, the studies covered in this section concentrate heavily on manufacturing i.e. on material offshoring. In this respect they are only directly relevant for one of the five industries in our project, namely metal and electronics manufacturing. In spite of the fact that the services sector is going to dominate FDI flows, and in 2006 accounted for 62% of the world inward FDI stock (up from 49% in 1990 -- UNCTAD, 2008, 9), studies on FDI and its determinants are biased against service offshoring (Riedl, 2008, 2). Goldberg (2004, 6) concluded that data on the effects of financial FDI in this respect “have not yet been parsed out”. This conclusion still holds, and can be drawn for other parts of the services sector too. This is all the more interesting as in various ways effects of FDI in services, unless all mutual differences between service industries, may differ essentially from those of manufacturing FDI. For example, this seems more generally the case for adjustment paths. Research in eight newly accessed EU countries learned that it took five years for FDI in the manufacturing sector to adjust to its equilibrium level service FDI reaches this within two years (Riedl, 2008, 3). On the other hand, notably complications arising from direct contacts with end consumers, at the backdrop of widely varying national consuming structures and cultures, have made large parts of services FDI vulnerable for failure, as the large number of divestments in the retail industry show (See WIBAR-2 Report No. 2, section 3).

#### **4. The WageIndicator data**

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 (UNCTAD, 2008).<sup>8</sup> For various reasons we were not yet able to gather enough wage data as to allow for detailed analyses on five countries Denmark, France, Hungary, Italy, and Sweden. Yet, 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 (UNCTAD, 2008).

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

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<sup>8</sup> The FDI outflow from the 12 countries was also considerable, jointly taking 89% of the total outflow from the EU in 2007, 92% in 2006 and 93% in 2005. Cf. UNCTAD, 2008, *op. cit.*, Table B.1.

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. Following the demands of our project partners, we did so for five industries: metal and electronics manufacturing; finance and call centres; transport and telecom; information technology (IT), and the retail industry. In 2005, jointly these five industries accounted for 27 to 30% of the employee workforce and 40 to 46% of the employee workforce in the profit sector of the seven countries involved (EU KLEMS database March 2008 -- <http://www.euklems.net/>, accessed February 15, 2009).

Analyses have been performed for 55,111 respondents, divided across countries and industries as shown in Table 1. In the wage tables presented below, only cells with more than eight respondents will be included.

**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 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.

**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	52
Retail	33	21	31	24	32	27	35	29
Finance & call centres	46	27	39	47	39	33	43	39
Information Technology	47	45	37	45	35	42	47	43
Transport and telecom	49	38	45	42	30	33	43	40
<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>

Across industries, metals and electronics manufacturing shows the largest shares of workers in MNE establishments, both overall (52% as unweighted average) and in all seven countries. The largest share here as well as across industries can be found in Belgium (65%). The IT industry shows up with the second largest share (43%), followed by transport (40%), finance and call centres (39%), with retailing (29%) closing the ranks. The Finnish share of 21% MNE workers in retail is the lowest we found.

For three of seven countries we could also trace which share of these respondents worked in a foreign firm. For Belgium this share is by far highest, with an unweighted average for the five industries of 87%; against 59% for Spain and 55% for the Netherlands. Based on these figures, 42% of the Belgian respondents works for foreign MNEs, with Belgium as host country, and only 7% in home country MNEs; this compares with respectively 21% and 15% for Spain, and 23% and 18% for the Netherlands. The Belgian outcomes for “our” five industries correspond with the high ranking of this country on various transnationality or globalization indices.<sup>9</sup>

## 5. Our evidence

As a first step, Tables 3a – 3e present our evidence in its most simple form, in showing median gross hourly wages for the MNEs as defined earlier (a firm with one or more locations abroad) versus domestic firms, for the five industries and the seven countries at stake. The outcomes, always in Euros, picture the variations between national hourly wage levels, though they strictly spoken do not allow for purchasing power comparisons.

**Table 3a. Median gross hourly wages of workers in MNE and non-MNE firms, in metal and electronics manufacturing by country (in Euros, current exchange rates)**

	BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	16.37	16.01	20.48	17.61	6.47	10.55	17.46
<b>No MNE</b>	14.18	14.43	15.06	14.02	4.24	8.07	14.08
<b>Total</b>	15.54	15.12	17.98	15.40	5.01	8.88	16.09
<b>Difference *)</b>	13.4%	9.9%	26.5%	20.4%	34.5%	23.5%	19.4%
<b>Average difference (unweighted)</b>							21.1%

\*) = Difference ((MNE-non-MNE):MNE x 100)

<sup>9</sup> For 2005 the highest position in the EU in the UNCTAD transnationality index (made up of FDI inward stocks, value added and employment in foreign affiliates – UNCTAD, 2008, 12) and the no. 1 position for 2007 and 2008 in the KOF Index of Globalisation (composed from indices of economic, social and political globalization – For 2007; Dreher *et al*, 2008, 52. For 2008: KOF, 2008, *press release January 8, 2008* (<http://globalisation.kof.ethz.ch>)).

**Table 3b. Median gross hourly wages of workers in MNE and non-MNE firms, in retail by country (in Euros, current exchange rates)**

	BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	12.81	13.20	12.32	10.40	4.85	6.07	12.66
<b>No MNE</b>	12.09	13.23	10.00	10.03	3.70	5.39	10.75
<b>Total</b>	12.60	13.22	10.78	10.16	3.90	5.55	11.53
<b>Difference *)</b>	5.6%	-0.3%	18.8%	3.5%	23.7%	11.2%	15.1%
<b>Average difference (unweighted)</b>							11.1%

\*) = Difference ((MNE-non-MNE):MNE x 100)

**Table 3c. Median gross hourly wages of workers in MNE and non-MNE firms, in finance and call centres by country (in Euros, current exchange rates)**

	BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	19.11	15.01	23.09	17.49	6.35	12.19	17.54
<b>No MNE</b>	14.04	12.68	18.00	14.88	4.85	9.12	14.20
<b>Total</b>	16.23	13.25	20.02	16.14	5.34	10.39	15.96
<b>Difference *)</b>	26.5%	15.5%	22.0%	14.9%	23.6%	25.2%	19.0%
<b>Average difference (unweighted)</b>							21.0%

\*) = Difference ((MNE-non-MNE):MNE x 100)

**Table 3d Median gross hourly wages of workers in MNE and non-MNE firms, in Information Technology by country (in Euros, current exchange rates)**

	BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	17.28	18.67	20.65	18.60	8.66	10.39	21.28
<b>No MNE</b>	14.34	15.40	15.64	17.32	6.06	8.66	16.11
<b>Total</b>	15.80	16.98	17.32	17.78	6.50	9.24	18.48
<b>Difference *)</b>	17.0%	17.5%	24.3%	6.9%	30.0%	16.7%	24.3%
<b>Average difference (unweighted)</b>							19.5%

\*) = Difference ((MNE-non-MNE):MNE x 100)

**Table 3e Median gross hourly wages of workers in MNE and non-MNE firms, in transport and telecom by country (in Euros, current exchange rates)**

	BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	14.78	14.28	17.32	14.20	6.06	8.68	14.97
<b>No MNE</b>	14.95	13.17	11.55	12.60	4.33	7.25	13.99
<b>Total</b>	14.83	13.48	13.85	13.28	4.51	7.70	14.62
<b>Difference *)</b>	-1.2%	7.8%	33.3%	11.3%	28.6%	16.5%	6.6%
<b>Average difference (unweighted)</b>							9.9%

\*) = Difference ((MNE-non-MNE):MNE x 100)

As regards industries, metal and electronics manufacturing is on top, with an unweighted average MNE wage premium of 21.1%, closely followed by finance and call centres (21.0%) and by Information Technology (19.5%). With 11.1% and 9.9% respectively, the two industries at the low end of the wage spectrum, retail and transport and telecom, reveal the smallest differences. As regards countries, with an unweighted average of the five industries of 26.8%, Poland clearly shows the largest over-all difference, followed by Germany (23.2%). Three countries, Spain (17.7%), the UK (15.3%) and Belgium (12.5%), make up for the middle group, whereas wage premia are on average smallest in the Netherlands (10.4%) and Finland (9.5%).

We have to add here that wage differences will mostly be smaller if calculated on a weekly or monthly basis. This can be explained by differences in overtime compensation in pay. The *WageIndicator* web-survey includes questions about overtime compensation in pay, in time, or no overtime compensation at all, as well as questions on working time. Here the outcomes deviate clearly from that concerning wage levels. In a large majority of cases (26 of 35), receiving overtime in pay is more common in domestic firms than in MNEs. Moreover, the incidence of long hours is nearly everywhere higher in MNEs than in non-MNEs; in 30 of 35 cases this holds for the percentages of respondents usually working more hours than those agreed. Combination of these results imply that wage premia calculated over weekly or monthly wages for MNE workers that often work overtime are somewhat smaller than those calculated on an hourly basis. Retail shows the largest differences. We calculated that, following this reasoning, in Dutch retail the average weekly differential between MNEs and domestic firms would decrease 2%-points compared to the hourly difference; in Finnish retail the decrease would be 0.8%-pts, and in retailing in Belgium, Germany, Poland, Spain and the UK 0.2-0.3%-pts.

A second step is to account for the size of establishments. At first instance we do so in a basic way, presenting in Tables 4a – 4e below breakdowns according to three establishment size categories: under 100 employees, 100-500 employees, and 500 and more employees, with short comments per industry.

**Table 4a** *Median gross hourly wages of workers in MNE and non-MNE firms, in metal and electronics manufacturing by country and firm size (in Euros, current exchange rates)*

		BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	< 100 empl	15.19	15.09	17.19	15.44	5.16	8.95	16.11
<b>MNE</b>	100-500 empl	17.64	16.21	18.15	17.00	6.58	10.94	17.67
<b>MNE</b>	> 500 empl	16.45	16.45	22.80	21.60	6.50	12.60	18.28
<b>MNE</b>	Total	16.37	16.01	20.48	17.61	6.47	10.55	17.46
<b>No MNE</b>	< 100 empl	13.19	13.39	13.87	13.58	4.00	7.79	13.00
<b>No MNE</b>	100-500 empl	17.55	15.40	16.74	16.07	4.11	8.66	16.31
<b>No MNE</b>	> 500 empl	-	18.35	20.66	16.51	5.20	9.06	16.61
<b>No MNE</b>	Total	14.18	14.43	15.06	14.02	4.24	8.07	14.08
<b>Difference *)</b>	< 100 empl	13.2%	11.2%	19.3%	12.6%	22.4%	12.9%	19.3%
<b>Difference *)</b>	100-500 empl	0.5%	5.0%	7.7%	5.5%	37.5%	20.8%	7.7%
<b>Difference *)</b>	> 500 empl	-	-11.6%	9.4%	23.6%	20.0%	28.1%	9.1%
<b>Difference *)</b>	Total	13.4%	9.9%	26.5%	20.4%	34.5%	23.5%	19.4%

\*) = Difference ((MNE-non-MNE):MNE x 100)

From the table it emerges that in all seven countries the wage premium in MNEs is omnipotent in firms with less than 100 employees. In larger firms the picture is less clear. In the category with 100-500 employees MNEs only show a large wage advantage in two countries, Poland and Spain; in the other countries their advantage is less than 8%. The

results in firms over 500 employees are mixed: MNE wages 20% or more above those of domestic firms in the Netherlands, Poland and Spain, 9% higher in Germany and the UK, and surprisingly in Finland 12% less than wages in domestic firms.

**Table 4b Median gross hourly wages of workers in MNE and non-MNE firms, in retail by country and firm size (in Euros, current exchange rates)**

		BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	< 100 empl	12.75	12.15	11.16	9.82	4.04	5.66	12.34
<b>MNE</b>	100-500 empl	12.46	14.95	12.60	12.41	4.69	7.85	12.64
<b>MNE</b>	> 500 empl	13.52	16.74	15.88	12.92	-	7.10	15.17
<b>MNE</b>	Total	12.81	13.20	12.32	10.40	4.85	6.07	12.66
<b>No MNE</b>	< 100 empl	12.09	13.07	9.53	9.77	3.28	5.38	9.99
<b>No MNE</b>	100-500 empl	12.48	13.91	11.12	10.95	4.31	5.03	13.15
<b>No MNE</b>	> 500 empl	-	-	12.68	13.20	5.61	-	15.12
<b>No MNE</b>	Total	12.09	13.23	10.00	10.03	3.70	5.39	10.75
<b>Difference *)</b>	< 100 empl	5.2%	-7.6%	14.6%	0.5%	20.8%	4.9%	15.4%
<b>Difference *)</b>	100-500 empl	-0.2%	7.0%	11.7%	11.8%	8.1%	35.9%	-4.0%
<b>Difference *)</b>	> 500 empl	-	-	20.2%	-2.2%	-	-	0.3%
<b>Difference *)</b>	Total	5.6%	-0.3%	18.8%	3.5%	23.7%	11.2%	15.1%

\*) = Difference ((MNE-non-MNE):MNE x 100)

In six countries a wage premium in retail MNEs in firms with less than 100 employees shows up, varying from 0.5% in the Netherlands to 21% in Poland. Finland is the exception, with median wages nearly 8% higher with domestic retailers. The larger size categories show a mixed picture. With 100-500 employees, MNEs show a rather modest premium (7 - 12%) in Finland, Germany, the Netherlands and Poland, while in Spain it is much larger (36%). This outcome cannot be separated from the very low median wage –just over Euro 5 hourly— earned in Spanish medium-sized domestic firms. In this size category Belgian and British domestic retailers show higher wages than MNEs.

**Table 4c. Median gross hourly wages of workers in MNE and non-MNE firms, in finance and call centres by country and firm size (in Euros, current exchange rates)**

		BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	< 100 empl	13.92	13.79	19.85	16.46	5.77	12.40	13.45
<b>MNE</b>	100-500 empl	13.33	13.31	19.80	16.68	5.16	9.38	16.39
<b>MNE</b>	> 500 empl	20.56	19.37	24.29	19.45	8.06	14.02	19.35
<b>MNE</b>	Total	19.11	15.36	23.09	17.49	6.35	12.19	17.54
<b>No MNE</b>	< 100 empl	12.31	12.59	16.28	14.06	4.12	8.74	13.49
<b>No MNE</b>	100-500 empl	-	13.77	17.51	15.77	5.68	9.72	15.07
<b>No MNE</b>	> 500 empl	23.72	12.19	19.54	18.22	7.70	11.15	16.02
<b>No MNE</b>	Total	14.04	12.68	18.00	14.88	4.85	9.12	14.20
<b>Difference *)</b>	< 100 empl	11.6%	8.7%	18.0%	14.6%	28.6%	29.5%	-0.3%
<b>Difference *)</b>	100-500 empl	-	-3.4%	11.6%	5.5%	-10.1%	-3.6%	8.1%
<b>Difference *)</b>	> 500 empl	-15.4%	37.1%	19.5%	6.3%	4.4%	20.5%	17.2%
<b>Difference *)</b>	Total	26.5%	15.5%	22.0%	14.9%	23.6%	25.2%	19.0%

\*) = Difference ((MNE-non-MNE):MNE x 100)

In six countries there is a wage premium in finance and call centre MNEs in establishments with less than 100 employees, varying from 9% in Finland to 29% in Poland and Spain. The

UK is the exception, with median wages slightly higher in small domestic firms. In the category with 100-500 employees MNEs show a rather modest wage advantage (5-12%) in Germany, the Netherlands and the UK, while in Finland, Spain and notably Poland MNEs have a *disadvantage* compared to domestic firms, in Poland even of 10%. Wages in the largest category are clearly in favour of MNEs, with medians 4% (Poland) to 37% (Finland) higher. Belgium is the exception, with domestic finance and call centre firms paying 15% more than MNEs of the same size. Germany and the Netherlands show a consistent pattern of MNE wage premia, but the other five countries do not.

**Table 4d Median gross hourly wages of workers in MNE and non-MNE firms, in Information Technology by country and firm size (in Euros, current exchange rates)**

		BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	< 100 empl	15.73	15.93	17.63	17.32	7.94	10.02	20.17
<b>MNE</b>	100-500 empl	18.26	18.61	19.25	18.24	7.07	10.91	22.95
<b>MNE</b>	> 500 empl	19.05	19.35	23.09	19.63	9.86	12.06	21.44
<b>MNE</b>	Total	17.28	18.67	20.65	18.60	8.66	10.39	21.28
<b>No MNE</b>	< 100 empl	13.98	15.01	15.02	16.17	5.20	7.94	14.86
<b>No MNE</b>	100-500 empl	17.84	15.97	17.75	17.90	7.22	9.59	17.90
<b>No MNE</b>	> 500 empl	17.32	17.50	18.24	19.74	7.65	12.27	19.80
<b>No MNE</b>	Total	14.34	15.40	15.64	17.32	6.06	8.66	16.11
<b>Difference *)</b>	< 100 empl	11.1%	5.8%	14.8%	6.6%	34.5%	20.8%	26.3%
<b>Difference *)</b>	100-500 empl	2.3%	14.7%	7.8%	1.9%	-2.1%	12.1%	22.0%
<b>Difference *)</b>	> 500 empl	9.1%	9.6%	21.0%	-0.5%	22.4%	-1.6%	7.6%
<b>Difference *)</b>	Total	17.0%	17.5%	24.3%	6.9%	30.0%	16.7%	24.3%

\*) = Difference ((MNE-non-MNE):MNE x 100)

In all seven countries a wage premium merges in IT MNEs in firms with less than 100 employees, yet varying from 6% in Finland to nearly 35% in Poland. The larger size categories also show predominantly a MNE wage premium, but on average that premium is not that high and moreover the picture is more mixed here. Like in finance and call centres, Poland medium-sized IT MNEs have a wage disadvantage compared to domestic firms. The evidence for the largest category is mixed: a high wage premium for MNEs in Poland and Germany, modest premiums in Belgium, Finland and the UK, and small disadvantages in the Netherlands and Spain. Four countries, Belgium, Finland, Germany and the UK, are consistently in favour of MNE wages, but the Netherlands, Poland and Spain are not.

**Table 4e Median gross hourly wages of workers in MNE and non-MNE firms, in transport and telecom by country and firm size (in Euros, current exchange rates)**

		BE	FI	DE	NL	PL	ES	UK
<b>MNE</b>	< 100 empl	13.83	13.32	13.36	12.61	5.71	9.37	14.76
<b>MNE</b>	100-500 empl	15.19	12.56	14.43	14.58	4.60	8.22	13.72
<b>MNE</b>	> 500 empl	15.64	17.81	19.92	16.41	6.90	9.86	16.46
<b>MNE</b>	Total	14.78	14.28	17.32	14.20	6.06	8.68	14.97
<b>No MNE</b>	< 100 empl	13.82	12.22	10.01	11.55	4.04	6.93	12.49
<b>No MNE</b>	100-500 empl	14.72	13.48	12.93	13.42	4.50	7.77	15.58
<b>No MNE</b>	> 500 empl	16.18	20.42	15.59	16.45	4.48	12.34	18.60
<b>No MNE</b>	Total	14.95	13.17	11.55	12.60	4.33	7.25	13.99
<b>Difference *)</b>	< 100 empl	0.1%	8.3%	25.1%	4.8%	29.2%	26.0%	15.4%
<b>Difference *)</b>	100-500 empl	3.1%	-7.3%	10.4%	8.0%	2.2%	5.5%	-13.6%
<b>Difference *)</b>	> 500 empl	-3.5%	-14.7%	21.7%	-0.2%	35.1%	-25.2%	-13.0%
<b>Difference *)</b>	Total	-1.2%	7.8%	33.3%	11.3%	28.6%	16.5%	6.6%

\*) = Difference ((MNE-non-MNE):MNE x 100)

The wage premium for transport and telecom MNEs is omnipotent in firms with less than 100 employees, though this hardly is the case in Belgium. In the other countries the premium varies between 5 and 29%. In larger firms the picture is less clear. In the category with 100-500 employees, MNEs have a rather modest wage advantage in five countries, Belgium, Germany, the Netherlands, Poland and Spain, while in Finland and the UK the domestic firms have an advantage, up to 14% in the UK. The results in the largest category are even less in favour of MNE wages. They are only above those of domestic firms in Poland and Germany; in the five other countries wages in domestic firms are higher, substantially in the UK, Finland and especially Spain (25%).

As a third step, we carry out a systematic analysis of wage differentials between MNEs and non-MNEs. We were able to take into account the influence of five factors, which relevance we indicated before. Besides a measure for establishment size, we used years of work experience (tenure) and educational level as indicators for human capital, as well as gender and working hours in order to account for possible wage discrimination against females and part-time workers. On this basis, we carried out regression analyses by industry to control for the influence of these five factors. In Tables 5a – 5e we present the outcomes of these analyses, including short comments.

**Table 5a 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 Germany and the Netherlands.

**Table 5b 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

The results of our analysis for retail 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 Poland, then for the UK and Germany.

**Table 5c 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. There are 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 5d 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 5e 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.

## 6. Conclusions

In Table 6 (next page) we present an overview of the results of our regressions for the five industries and seven countries, with the statistically significant differences printed **bold**.

**Table 6. 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 on the MNE wage premium as reported in sections 3.1 and 3.2. above, partly they are not. The rather low to even negative premia found for Finland confirm recent evidence on wage differentials in 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 on this country. The results for Poland, except for the retail industry showing large MNE premia, underline our conclusion 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, but for metal and electronics and IT they do not.

In evaluating these outcomes, we went back to the industry reports 1 – 5 and notably to the reported relative wages and the wage differentials by size. 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 and 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 an aspect that is rather neglected in the literature on MNE and FDI, i.e. issues on how MNEs are embedded in national industry structures, on their relationship with domestic enterprise, and how they mutually compete in national labour markets.

Especially the outcomes for retailing and for transport and telecom ask for still another additional explanation. In the respective industry reports we already argued that notably MNEs active in Belgian, Finnish, Polish and Spanish retail as well as in Finnish, Polish, Spanish and UK transport and telecom seem to have taken resort to outright wage pressure. Notably for Spain and the UK, the WIBAR-2 conferences added up proof for this argumentation. Such outcomes cannot be discounted as simple size effects. They deserve at least to be linked up with specific HRM practices of certain MNEs, for which in turn the relationship with the wider industrial relations context deserves to be explored.

MvK/KT

## 7. References

### Evidence on Social Effects of Foreign Direct Investment (FDI) in five industries and seven EU countries

#### Key for themes / countries / industries:

##### I – X Themes

- I General, MNE strategies, employment, productivity, home & host country effects
- II Firm size, firm ownership, FDI streams, statistics
- III Relocation, restructuring
- IV Wages, rent sharing, income inequality
- V Health & safety / Working conditions / HR practices
- VI Working hours
- VII Training
- VIII Industrial relations, collective bargaining coverage, union membership
- IX Opinions of social partners
- X Reorganisations at the workplace, worker insecurity

##### XI Countries

- XI.1 Belgium
- XI.2 Finland
- XI.3 Germany
- XI.4 Hungary
- XI.5 Netherlands
- XI.6 Poland
- XI.7 Spain
- XI.8 Sweden
- XI.9 United Kingdom
- XI.10 Central / Eastern Europe (CEECs) / general
- XI.11 United States
- XI.12 Other developed countries
- XI.13 Developing countries

##### XII Industries

- XII.1 Metal and Electronics Manufacturing
- XII.2 Retail
- XII.3 Finance and Call Centres
- XII.4 Information Technology
- XII.5 Transport and Telecom

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