

# MULTINATIONALS AND LABOUR RELATIONS: THE CASE OF IRELAND

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## Introduction

For the Republic of Ireland the attraction of inward investment has formed a major element in industrial development policy. The result is a foreign-owned manufacturing sector which in 1980 employed some 80,000, approximately one-third of all employees in manufacturing. In recent years this sector has been the most dynamic in employment creation with net employment growth of more than 22,000 between 1973 and 1980. This contrasts with an increase of only 2,000 jobs within domestically-owned industry.

Inward investment has occurred across a wide range of industries, both traditional and modern with the most significant sectors mechanical engineering, electrical and electronic engineering, food, drink and tobacco and textiles accounting for around a half of foreign-owned firms employment. Similarly, the spatial impact of foreign investment has been widespread with a number of establishments being set up in the more remote southern and western counties (O'Farrell 1980).

While research has addressed several of the major policy issues raised by multinational enterprises (MNEs) including employment creation (O'Suilleabhain 1983), employment stability (McAleese and Counahan, 1979, NESc, 1983) and industrial performance (NESc, 1982), there has been little systematic study of the labour relations practices of such firms in Ireland (exceptions being FUE, 1980 and Kelly and Brannick, 1985). This is unfortunate for several reasons. First, on theoretical grounds there are a number of characteristics of MNEs which lead to an expectation that they will pursue labour relations practices that differ in type or degree from those associated with indigenous enterprises. Such practices are invariably subject to the influence of source national values. In addition, a multinational structure may influence labour relations practices. For example, the centralisation of certain key decisions may generate response rigidities within subsidiaries. Second, one of the

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potential benefits of multinational production is the introduction and dissemination in the host nation of innovative and possibly superior production and management methods. In the UK and other countries considerable public policy interest has focused on this aspect of foreign firms operations in an attempt to develop useful lessons for indigenous firms. Third, the industrial relations practices of MNEs are not seen in such beneficial terms by all parties concerned. Organised labour is often suspicious of, and hostile towards, such firms. This hostility arises from both the alleged bargaining advantages associated with multinational structure and the influence of differing ideologies and values on the conduct of labour relations.

The intention of this paper is to consider questions of this type through an examination of the industrial relations impact of MNEs in Ireland.

### **Characteristics of MNEs in Ireland**

The labour relations practices of MNEs are influenced by the structural, performance and behavioural characteristics of such firms. The most important structural differences between foreign-owned and domestic enterprises result from the multinational nature of foreign affiliates. There is considerable evidence that foreign-owned subsidiaries are significantly larger than their domestic competitors in most developed nations. This is certainly true for Ireland where in 1976 MNE subsidiaries were, on average, some three times larger than indigenous multi-regional plants (O'Loughlin and O'Farrell 1980). The size differential is particularly marked in the case of *US-owned affiliates*. Size is a major influence on many aspects of industrial relations and has been positively related, for example, to unionisation, strike proneness, the development of formal procedures, bargaining structures and wage levels and payment systems (Buckley and Enderwick, 1985).

A difference may also exist between foreign-owned and indigenous firms in respect of capital intensity. Capital intensity appears to influence the likelihood of collective bargaining arrangements, the costs of wage concessions and, possibly, strike activity. In the Irish case O'Loughlin and O'Farrell (1980) conclude that after correcting for industrial structure MNE subsidiaries do not have higher capital intensity than indigenous plants. However, it should be noted that their measure of capital intensity, net output per employee, is more correctly a measure of labour productivity than intensity and this hypothesis remains untested.

An important source of structural differences between foreign-owned and domestic establishments stems from the former's component status within a global enterprise. Component status is likely to encourage both

specialisation and the overseas transfer of standardised production technologies. It is generally recognised that the efficiency gains of extensive specialisation are achieved at the cost of increased interdependency. The MNE represents, in many ways, the epitome of specialisation, constituting as it does an international division of labour. Specialisation and interdependency, whilst bringing benefits to the organisation, are not costless processes. Increasing specialisation raises the rigidity and vulnerability of the entire organisation. There are severe problems involved in measuring interdependency empirically. Similar structures may disguise substantial differences in interdependency as a result of such factors as latent multiple sourcing, cost and possibilities of substitution and the use of inventories. The most widely used measure of interdependency is intra-group trade, that is, the proportion of group output exported to the parent or other affiliates of an enterprise.

There is considerable evidence to suggest that MNE subsidiaries in Ireland play an important component role in the global strategies of their parent enterprises. First, with the exception of US MNEs other foreign-owned manufacturing firms in Ireland appear to use more standardised production technologies than indigenous producers (O'Loughlin and O'Farrell 1980). Even in the rapidly evolving electronics industry only about one-fifth of employees can be classified as professional or highly skilled (Murray and Wickham 1982). Second, MNE subsidiaries in Ireland display a very high export propensity; far higher than that of either indigenous firms (McAleese 1977; NESC 1982; O'Loughlin and O'Farrell 1980) or MNE subsidiaries in the assisted areas of the UK (Hood and Young 1983). Similarly, the foreign-owned manufacturing sector sources a very large proportion of its inputs outside Ireland. The Telesis report (NESC 1982) suggested that the largest foreign sector, engineering, obtained only 8 per cent of components and sub-assemblies used in 1976 from domestic suppliers. Similar findings have been reported in a number of other studies (IDA 1985; McAleese and McDonagh 1978; O'Farrell and O'Loughlin 1981; Stewart 1976). Third, there is evidence that much of this trade is intra-enterprise. McAleese (1977) reports that in 1974 almost 30 per cent of materials imported by MNE subsidiaries in Ireland were from related affiliates. Similarly over half of overseas industry exports were destined for affiliated companies. There are likely to be significant differences by industry in the use of intra-enterprise trade. This might explain why Hood and Young (1983), in a sample heavily weighted towards electrical engineering, found little evidence of intra-group trade. Fourth, the propensity to engage in related trade is much higher for US affiliates than other foreign-owned firms (McAleese 1977). This is perhaps not surprising given the role Ireland plays for such firms as a satellite manufacturing facility offering entry to EC markets

combined with taxation and transfer pricing incentives. Fifth, while such linkages and internal exchange serve to increase interdependency it is important to note that much internal trade takes place in the form of finished goods. For such goods foreign affiliates serve principally as sales and distribution outlets. In the case of Ireland there is no evidence that internal trade in finished goods is of any significance (Hood and Young 1983). Clearly, interdependency is most acute in the case of semi-finished inputs requiring further processing.

Several dimensions of economic performance are likely to affect the labour relations function. Profitability has been found to influence wage demands (Farber 1977) and management offers (Daniel 1976). Similarly, profitability appears to influence strike costs, although its impact on strike activity is ambiguous. Similar ambiguity surrounds the level and changes in productivity. Expected productivity levels may influence both demands and ability to concede, revealing no discernible relation with strike activity (Shorey 1974).

Unfortunately, the evidence on performance of the foreign-owned sector is not sufficient to allow full exploration of these hypotheses. Existing estimates do not enable a direct test of the performance of MNE subsidiaries. Thus, McAleese (1977) reported tentative findings of superior performance in terms of net output, labour productivity and profitability for new industry. However, this sector comprised 431 establishments of which 164 were indigenous (ie Irish-owned). Evidence on rates of return for US overseas investment supports the view that Irish operations are extremely profitable. 1984 rates of return<sup>1</sup> on manufacturing were 22.1 per cent for Irish affiliates. This compares with an all-Europe figure of 4.7 per cent and a developed country figure of 7.5 per cent (Survey of Current Business 1985). This figure is consistent with recent IDA (1985) estimates which show profit as a percentage of 1983 sales for those sectors dominated by overseas ownership well in excess of the manufacturing industry average of 8 per cent.<sup>2</sup> These problems of interpretation are compounded when one recognises that some 75-80 per cent of profits of foreign manufacturing firms were remitted overseas in 1983. It is not apparent that the superior profitability of affiliates influence their behaviour, although employees and labour organisations may seek a share of such earnings.

Behavioural comparisons are compounded by the problem of isolating size from ownership effects. As noted above, foreign-owned plants in Ireland are of above average size. Even after accounting for the size effect there are several grounds of expecting differences by nationality in industrial relations management. First, whilst MNE affiliates seek to

adapt their policies in accordance with local practices (ILO 1976) the influence of source nation values cannot be completely discounted. Second, multinational organisation may influence labour relations practices in several ways. Subordination of particular affiliates to maintain or enhance corporate well-being may introduce conflict of interest, centralisation of key decisions and rigidities of response. The availability of comparative data on performance in related affiliates may be instrumental in implementing a labour utilisation policy untypical of host national practices. Furthermore, there is a widespread view that multinational structure endows management with a considerable bargaining advantage which may manifest itself in a comparatively low wage share, employment instability, imperviousness to strike action and anti-union stances.

Third, foreignness may lead to differences in both risk perception and information acquisition practices. The problems foreign firms face are likely to be particularly marked in areas where cultural differences are subtle and data collection and evaluation subject to both high costs and probability of misinterpretation. Labour is a factor of production where such management problems are considerable. This follows from both the locational specificity of labour and the importance of non-economic factors in contributing to successful labour relations. Considerations of this type generate a number of testable hypotheses. First, problems of evaluating cost and quality of factors in local production may reveal a preference for imported inputs, a reluctance to subcontract locally, or a preference for multiple sourcing. The evidence discussed above offers clear support for this hypothesis. Similarly, the Hood and Young study revealed that only 15 per cent of Irish plants represented a single group source for the output produced at the plant (Hood and Young, 1983). Second, firms less knowledgeable about local factors may adopt different production processes. The adopted technologies will be less labour-intensive. There are grounds for believing that capital-intensive processes may contribute to both higher quality production and control of the labour factor. The unfamiliarity of incoming investors is revealed by Hood and Young who found that 70 per cent of the MNEs in their sample had had no supply links with the country prior to investment. As noted above, the relative capital intensity of the foreign-owned sector in Ireland is an unresolved question.

### **Labour Relations Practices of MNEs in Ireland**

The hypotheses raised by the foregoing discussion may be contrasted with evidence on the labour relations practices of MNEs in Ireland. First, for a number of reasons we would expect to see MNE subsidiaries adapting their labour relations management to conform to local practices. The

unfamiliarity of investors with the Irish labour market implies that convergence offers a low risk strategy, particularly when coupled with local staffing of the industrial relations function. Convergence is facilitated by the fact that labour relations appears to be the most decentralised functional area within MNEs (Hedlund 1981). Studies of particular MNEs or sectors in Ireland suggest that foreign-owned firms enjoy considerable autonomy in labour relations management (ILO, 1985), and reveal no evidence of the imposition of potentially disruptive source national practices (ILO 1985; EIRR 1982). These findings are confirmed by survey evidence (Kelly and Brannick, 1985).

Second, there is no evidence that MNEs in Ireland are reluctant to recognise or deal with trades unions (Hood and Young 1983; Kelly and Brannick, 1985). Partly, this results from the IDA's practice of encouraging incoming firms to recognise and negotiate in good faith. Interestingly, this area includes one innovative practice identified in the UK with MNE subsidiaries; that of single or simplified union agreements. This practice is closely associated with the strategies of Japanese investors (Enderwick 1985). In Ireland, union rationalisation has been encouraged by the IDA in assisting overseas firms to reach single union agreements. Indeed, the policy even led in 1982 to an outline agreement on inter-union relations between Ireland's three main general unions. Where the single union strategy has failed, often under pressure from craft workers, many firms have succeeded in devising a more rational multi-union arrangement than is often encountered. According to Trevor (1981) some Japanese firms have countered opposition by subcontracting out craft tasks enabling a single union structure to apply to operatives. Of the 27 MNEs surveyed by Kelly and Brannick, 20 had reached agreement on exclusive representation.

Other areas where MNEs have displayed an innovative role, in particular in tackling demarcation issues and flexible working practices, have been addressed by guidelines published by the FUE. However, even here a number of MNEs have developed formalised procedures for dealing with demarcation disputes (EIRR 1982).

Third, the view that organised labour finds itself at a bargaining disadvantage when dealing with an MNE is questioned by the characteristics of MNEs in Ireland. The sources of management advantage, it is argued, are to be found in the organisational flexibility and complexity of MNEs, offering possibilities for threatened or actual production relocation, ability to withstand protracted stoppages, opportunities for the cross-border arbitrage of managerial expertise and obscure command and consultation networks.

The earlier reasoning suggests that rather than labour being at an inevitable disadvantage in its dealings with MNEs there may be cases where labour bargaining power is enhanced when facing a multinational organisation. This is particularly likely in industries characterised by a high degree of vertical integration. Here, organisational inflexibility stems from two principal factors. The first is the degree of asset-specificity characterising exchange relations (Riordan and Williamson, 1985). Second, the incidence of intra-firm trade within MNEs raises the possibility of 'external' costs when trade flows are disrupted.

These rigidities suggest two major sources of labour bargaining power. First, the switching costs of specific assets imply that even when earnings fall asset services may not be withdrawn from their existing use. This consideration would be particularly significant where there exists a substantial difference between existing and next-best income flows. Under such circumstances there exist incentives for labour unions to exercise power to appropriate quasi-rents. Higher management may undertake a number of initiatives to reduce the probability of such income transfers. Second, as suggested above, the disruption of trade flows through industrial action may impose significant secondary costs on the organisation. Again, we may expect vulnerable firms to invest in procedures and arrangements designed to reduce the probability of such action.

There is considerable evidence to support these hypotheses. Foreign-owned firms in industries like synthetic fibres have shown considerable resilience despite short-term losses (ILO, 1985). While employment losses are an area of concern to organised labour (Kelly and Brannick 1985), job loss rates do not appear to be related to ownership nationally (McAleese and Coughlan, 1979; NESR, 1983). The relative wage share of employees in MNE subsidiaries compares favourably with that of indigenous enterprises (ILO, 1985; McAleese, 1977). The existence of 'sweetheart deals' whereby workers are assigned to unions enjoying exclusive representation rights, often agreed prior to start-up, may be interpreted as a means for curbing labour demands. Clearly, by discouraging effective negotiation over non-wage and labour utilisation questions quasi-rents may be protected.

The vulnerability of integrated MNEs, has important implications for information disclosure and the probability of industrial action. MNEs should be willing to disclose primarily plant-based information, much of it likely to relate to operational issues. Greater reluctance should be evident in the case of cost and profit data or information relating to corporate performance. This is exactly the experience of union representatives in Ireland. MNEs preference for local (plant) based

bargaining is coupled with a disclosure record comparable to that of indigenous firms. However, union concern focuses on the need for more cost and profit data as well as obtaining access to central decision-making processes. Similarly, MNEs tend to emphasise the role of consultation when economic difficulties are evident (Kelly and Brannick, 1985). As the branch plant role of MNE affiliates in Ireland implies, union representatives have no experience of transnational consultation or links with employees of the same company in other nations. Indeed, some union representatives even doubt whether local management are involved in key decision-making activities (Kelly and Brannick, 1985).

The predicted impact of corporate integration on industrial conflict is not immediately apparent. The cost of production disruption may be lower for affiliates in Ireland than for comparable branch plants in less developed nations. This follows from the fact that Irish subsidiaries play a less crucial role in forward supply (i.e. finished or semi-finished goods) to related affiliates. High export propensity is primarily a result of their EC servicing function. Furthermore, multiple sourcing for the European market (Hood and Young, 1983) reduces dependency on Irish affiliates. Nevertheless, we would expect to observe managements' committing considerable resources to the institutionalisation of conflict. This might take the form of above average wages and conditions, formalised grievance procedures and extensive consultation. This could result in a lower probability of industrial action. However, if despite these bargaining protocols a stoppage did occur it is likely to be of above average duration or incidence. Thus, we would expect a similar or lower frequency of conflict within MNE affiliates, with the possibility of more working days lost. Hood and Young (1983) report that between 1976 and 1980 the number of days lost due to stoppages in MNE subsidiaries was four times higher in the Republic than in assisted areas of the UK. This figure, however, disguises considerably variability in strike experience among Irish affiliates. For the period 1972-76 Nolan, McAleese and Counahan (1977) tentatively conclude that dispute frequency is similar for overseas and other firms in Irish manufacturing. Strike incidence, measured in terms of average annual mandays lost per 1000 workers, was some 49 per cent higher in the case of overseas firms.

### **Policy Issues**

The considerable convergence between MNE labour practices and those of indigenous firms suggests little need for additional government involvement in this area. MNEs in Ireland seem to have had only a limited impact on patterns of labour relations management. Nevertheless, a number of policy implications follow from our discussion.

First, labour relations regulation of MNEs in Ireland is founded on the principle of non-discrimination. That is, policies typically do not discriminate in terms of ownership nationality. This is evident in areas such as consultation with the 1977 Protection of Employment Act for example.

Second, much of the industrial relations framework is now enacted at the European and other levels suggesting a degree of national non-discrimination. Examples include the European Communities Regulations on Safeguarding of Employees Rights on Transfer of the Undertaking 1980 and the OECD and ILO Codes of Conduct. Both ownership and national non-discrimination are undoubtedly welcomed by a government committed to attracting multinational investment.

Third, unlike some other major host nations, labour unions in Ireland have not displayed any aspiration for multinational collective bargaining and the information needs that such a strategy demands (Enderwick, 1985). Rather, they have displayed a more instrumental role in securing for their members an increased share of economic rewards at the expense of longer-term strategic concerns (Kelly and Brannick, 1985).

Fourth, the limited impact that MNE subsidiaries have had on labour relations practices in Ireland is perhaps surprising given the number of Japanese firms which have located in the country. In the case of these enterprises national initiatives in areas such as union rationalisation and flexibility have pre-empted company-based innovations. More generally, the branch plant nature of MNEs with limited host country integration has constrained the diffusion of novel management practices.

### Summary and Conclusions

The paucity of evidence on labour relations practices of MNEs in Ireland has led to a focus in this paper on generating a number of theoretically testable hypotheses based on the characteristics of the country's MNE subsidiaries.

Foreign-owned manufacturing is dominated by branch plant production of generally standardised commodities dependent on imported inputs and sales to the European market. These operations have created a large number of jobs generally of fairly low skill content and quality and have had only a very limited impact on management practices. Indeed, there is considerable evidence of accommodation by incoming firms to existing practices and arrangements. It was argued that there are powerful economic incentives for this pattern. Labour unions in Ireland do not appear to be particularly disadvantaged in their dealings with MNEs.

In conclusion we note three caveats. First, our analysis is based on very limited data and evidence. This applies to both the characteristics of MNEs in Ireland and research on their labour relations practices. Given the significance of the foreign-owned sector much more data and analysis is called for.

Second, there may be a tendency to overstate the homogeneity of the foreign-owned sector. The contrast between Japanese and American MNEs in terms of global integration and management style is most notable. There may be a case for differentiation in hypothesis derivation and testing by both ownership nationality and product strategy (O'Loughlin and O'Farrell, 1980).

Third, the analysis is limited by its static nature. As affiliates mature both their localisation, function and strategy may shift. In some cases maturity may mean increased domestic integration and diffusion of management practices (McAleese and McDonald, 1978); in others issues such as increasing employment instability (NESC, 1983) may emerge. Clearly, the labour market effects of MNEs is an area where periodic updating of ideas is necessary.

#### NOTES

1. Defined as income divided by the average of the beginning and end-of-year direct investment position.
2. Vis 42 percent in Pharmaceuticals, 32 per cent in Healthcare Products, 22 percent in Computers and Office Machinery, 20 per cent in Instrument Engineering, 13 per cent in Mechanical Engineering, 11 per cent in Electrical Engineering.

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