

# **Are Multinational Enterprises' Industrial Relations Strategies Shaped by Host Countries' Laws and Trade Unions?**

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*There has been considerable attention applied to the degree of operational strategy convergence of Multinational Enterprises (MNE's) in the host countries within which they operate globally. This paper expands upon this concept with specific focus applied to industrial relations (IR) strategies and the extent to which these are shaped by the host countries' laws and trade union influence. Specific attention is given to MNE's originating from the United States of America, China and Australia to explore whether there are differences in attitude and approaches based on host country values. From this review it appears that the country from which the MNE originates does influence the methodology that is adopted. However, there is no definite doctrine that can be concluded from this discussion, there being a number of varying determinants which have seen many MNE's adopt a hybrid model of IR strategy, influenced by both the home and host countries. The continued emergence and growth of outward foreign direct investment (FDI) from developing nations, coupled with evolving industrial relations systems throughout the world should continue to provide fertile ground for future researchers to examine the extent to which local laws and unions shape the industrial relations strategies of multinational enterprises.*

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**Keywords:** multinational enterprises, foreign direct investment, industrial relations, globalisation, international trade

## **Introduction**

In recent decades globalisation has seen a liberalisation of national economies and significant reductions in trade barriers, which have subsequently resulted in an increase in the internationalisation of company activities. Commensurately, there has been considerable academic attention applied to the industrial relations strategies of these Multi-National Enterprises (MNE). Much of this has explored the degree of convergence to home country ideology and traditional practices when operating in host countries with differing political economy structures and stakeholder power. This paper explores the extent to which MNE's industrial relations strategies are influenced, impacted and

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directed by the host countries they operate within. Whilst taking a broad view of the subject matter, primary focus of the analysis will be applied to strategies impacted by the determinants of local laws and trade union influence. In undertaking this review attention will be applied to whether the specific parent country of the MNE impacts these outcomes or whether there is general consistency regardless of where their headquarters are located. To refine analysis, specific attention is given to the approaches adopted by American, Chinese and Australian companies. Ultimately, this paper will argue that general employment relations strategies are prejudiced to a degree by the parent countries' desire for policy convergence and their prevailing industrial relations values frames of reference, especially in American MNE's. Inevitably, however, the host countries' labour laws coupled with the relative strength of the union movement significantly shapes industrial relations strategy and practices.

## **Industrial Relations Systems**

When undertaking comparative analysis of industrial relations systems throughout the world, two of the key tenets utilised for evaluation have been legislative influences of the underpinning system coupled with the power and influence of trade unions (McDonnell et al., 2015). Traditionally, there has been significant variance in the roles that government and unions play in national industrial relations systems, even in countries who share common traits with respect to culture and the classification of being liberal market economies (McDonnell et al., 2015). The Australian experience saw unions originate in the 1830's within craft industries and then evolve to be the driving force behind the formation of the Australian Labor Party, which has enabled them to establish and maintain substantial political influence (Sheldon & Thornthwaite, 2011). It has been markedly different in the USA, who account for a significant proportion of the world's MNE's. Whilst having a presence in America, the union movement does not have formal links to any major party and has had minimal influence in the political sphere (Katz & Colvin, 2016). Subsequently, employment legislation, aside from the 'New Deal' in the 1930's, has been largely focussed on supporting a free market capitalist economy (Katz & Colvin, 2016). In China, which has become a dominant force in both inward and outward foreign direct investment (FDI), there has traditionally been one recognised union body, the All-China Federation of Trade Unions (ACFTU) (Liu, 2010). The ACFTU has linkages to the communist party and operates more like a government agency than an independent player in the process as one would see in developed countries (Liu, 2010). However, union activity is starting to change as the nature of work evolves in China (Liu, 2010). Similarly, and perhaps consequently, the legislative frameworks which establish the rules for industrial relations have been varied throughout the world. Some countries have applied very rigid and centralised laws whereas others have been predicated on minimal influence and intervention through the application of laws or regulations on the working relationship (Colvin & Darbshire, 2013).

Accordingly, the manner in which organisations approach industrial relations in domestic markets has been largely shaped by their home environment. When viewing this from the paradigm of a MNE operating in dispersed and diverse locations globally, heightened complexity is introduced

(Lévesque et al., 2015). Strategies have the potential to be significantly shaped by the country of origin's underpinning ethos, the host country conditions or increasingly a combination of the two (Lévesque et al., 2015). The prevalence of global business operations has advanced considerably in recent decades as improving technology coupled with a liberalisation of emerging economies and a reduction in trade barriers has opened new markets to MNE's (Cavusgil et al., 2014). Similarly, developing nations are now accounting for an increasing proportion of MNE's as they expand by establishing operations outside their traditional domestic markets (Fey et al., 2016). From an industrial relations perspective the influence that MNE's have in both theory and practice is significant. Multinationals number approximately 82,000 firms and employ approximately 77 million people globally, accounting for one-third of all the world's trade (Bartram et al., 2015, p.127).

Corporate strategy is often linked to the underpinning values of an organisation and this can vary substantially contingent on which value's frame of reference is adopted (Geare et al., 2009). Those who prescribe to a unitarist dichotomy emphasise the importance of managerial prerogative, with trade unions viewed as a disruptive presence that should be avoided (Bray et al., 2015). Unitarist organisations also actively seek to limit the influence of government and laws on the employment relationship (Cullinane & Dundon, 2014). Conversely, pluralism understands and accepts external influences are inevitable and aims to be pragmatic in developing strategies to mitigate this risk (Bray et al., 2015). As an extension of this, from a macro analysis viewpoint, the national industrial relations systems throughout the world can also be examined through these frames of reference, based on their history and stakeholder power. This subsequently shapes corporate attitudes of MNE's established on the home country in which they are headquartered (Geare et al., 2009).

Building from this theoretical analysis, focus can now be applied to the extent to which domestic strategies in industrial relations are exported and integrated into foreign subsidiaries. A considerable portion of the research into the influence of MNE behaviour has focussed on those companies who have home country headquarters in the USA. This is largely due to the high proportion of global businesses that have originated from America and the extended period in which they dominated this space (Bartram et al., 2015). When compared in the context of other liberal market economies, the USA has had lower rates of union density and influence (Katz & Colvin, 2016). This has been significantly shaped by the unitarist approach adopted by many large companies and aided by a largely decentralised legislative approach to labour relations (Katz & Colvin, 2016). Bartram et al. (2015) suggest that this has permeated into the industrial relations strategies adopted by global organisations. They pointed to the influence that US multi nationals had exerted on the convergence of industrial relations practices throughout the world, with a tendency to limit trade union influence and instead drive for individual employment contract arrangements (Bartram et al., 2015). This ethnocentric methodology in regards to industrial relations has traditionally seen a large number of American companies restrict changes to their strategy and only concede to alterations to the degree that it is mandatory under local laws, with little regard for the local employment relations practices, culture or history

(Ferner et al., 2013). Consequently, this approach has resulted in them placing far greater limitations on host country managerial discretion than their non-US counterparts (Ferner et al., 2013). Lamare et al. (2013) contend that host country managers working for US companies are often faced with competing pressures regarding the MNE expectations and the local environment realities.

There has been contrary research that argues that these blanket assessments of American multinationals strategies and behaviours are overly simplistic and also predicated by dated information and experiences. An extensive study across 12 host countries found that the influence of union activity in US multinationals is significantly impacted by whether the subsidiary is a new or a 'greenfield' operation as opposed to the acquisition of a pre-existing enterprise (Lawler et al., 2013). Furthermore, they contend that US multinationals do adapt their approach in host country environments, especially those with strong union presence at the enterprise level, with moderation of human resources and industrial policies to adhere to the environment that they are operating within (Lawler et al., 2013). However, this assertion is countered somewhat by research that shows whilst this adaption is undertaken out of necessity, increasingly American multinationals are assessing the IR systems and union influence in potential markets prior to making foreign investment decisions and seeking out countries where there are less restrictions and lower costs (Brandl et al., 2013). Accordingly, whilst the host country laws and unions are likely to shape US MNE's strategies, they are increasingly looking for nations where this can be avoided or minimised.

Zhu et al. (2014) sought to expand upon the American experience by examining the approach that Chinese MNE's adopted given the increasing economic power emanating from the country. They argued that one of the key determinants on the establishment of industrial relations strategies by Chinese firms in host countries was the managerial mindset reflecting that of the country of origin. Consequently, the need to incorporate local level expertise was emphasised as critical given that there were vast differences present in industrial relations frameworks throughout the world than those largely shaped by the Chinese Communist Party (Zhu et al., 2014). Shen (2007) previously explored this adaption theory through a study of 11 Chinese MNE's which found that a largely integrative approach was taken to international industrial relations, with elements of the Chinese system combined with the host country.

From an Australian context the industrial relations legislative framework and trade union influence have changed substantially in recent decades through system decentralisation and a sustained decline in union membership (Sablok et al., 2013). McDonnell et al. (2015) explored how multinationals from different home countries had adapted their approach to industrial relations in the wake of this evolution in Australia. Their findings highlight the significant influence that home country ideology has on MNE strategy, with Australian organisations seen to be much more aligned to the traditional Australian industrial relations frameworks and union interaction than their British and American counterparts. In this sense it was found that the foreign MNEs took a much more forceful approach than Australian companies in the implementation of their HR strategies,

often characterised by individualism and union avoidance approaches (McDonnell et al., 2015). Furthermore, foreign multinationals in Australia have tended to adopt a minimalist and indirect approach to consultation when trade union presence is high, although in recent years this has changed somewhat with a more focused employee engagement approach adopted (Sablok et al., 2013).

Thus far the focus of this paper has been the extent to which multinationals either maintain their home country strategies or adapt to the conditions of their subsidiaries. However, taking this rigid view of the question is likely to be too simplistic to the realities of international business. An empirical study on both US and Japanese MNE's in a developing nation – Vietnam – explored the central question on employment relations and human resources policy convergence (Vo & Rowley, 2010). The research found that whilst firms do maintain country of origin influences in their IR strategies, the reality is that they do adapt to host country laws and union activity, often creating a hybrid strategy (Vo & Rowley, 2010). Understandably the home country has power in shaping the strategies through the allocation of resources and corporate policy, however, so too does the subsidiary in contextualising these to meet the challenges of the local market regulations and appropriately managing union influence (Ferner et al., 2012).

Whilst multinationals are inevitably impacted by the host country environments in which they operate, the opposite is increasingly being evidenced, whereby multinationals can have an impact on the national industrial relations systems throughout the world. Colvin and Darbshire (2013) explored this and found that a new Anglo-American style of industrial relations had emerged since the 1980's economic reform era led by Ronald Regan and Margaret Thatcher in the USA and Britain respectively. This has seen a move away from the centralised systems present in many countries through compulsory arbitration and mandated conditions, to an increasing focus on strategies and negotiation at the enterprise level (Colvin & Darbshire, 2013). The decline of union density in almost all economies throughout the world coupled with the rising influence of globalisation and world markets have been pointed to as key reasons for these changes (Colvin & Darbshire, 2013). This has been evidenced in Australia where significant structural changes to the system have distinct hallmarks to the American employment relations individualistic approach, with many pointing to the influence that MNE's have played in this outcome (Gould, 2010).

## **Conclusion**

National industrial relations systems and the power of trade unions in the employment relationship vary significantly around the world. These two elements are intrinsically linked to an organisation's industrial relations strategy and accordingly substantial review and analysis has been undertaken regarding how this is managed in Multinational Enterprises. This paper has sought to review the extent to which the host countries' laws and unions shape the strategies of companies who conduct business there. Throughout this discussion American multinationals have been the centre of much of the discussion and have been seen to be more inclined to push for convergence to home country policies than MNEs from other countries. This has often resulted in them taking an ethnocentric view

framed by an individualistic free market and union avoidance approach. Conversely, policy and strategy adaptation to align to host country subsidiaries' laws and union power has also been evidenced. From this review it appears that the country that the MNE originates from does influence the methodology that is adopted. This was seen in an Australian context where despite the changes to the system and union power, domestic companies' industrial relations strategies remained more embedded in the traditional national system than those of their British and US MNE counterparts. Not surprisingly there is no definite doctrine that can be concluded from this discussion and there are a number of varying determinants present which have seen many MNE's adopt a hybrid model of IR strategy, influenced by both the home and host countries. The continued emergence and growth of outward foreign investment from developing nations coupled with evolving industrial relations systems throughout the world should continue to provide fertile ground for future researchers to examine the extent to which local laws and unions shape the industrial relations strategies of multinational enterprises.

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