

MNCs in Emerging Markets within Europe: investment decisions and the regulation of employment

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Abstract

This article explores the relationship between the regulation of employment and the decisions of multinational corporations (MNCs) to invest in emerging markets within Europe. The evidence suggests that the level of individual and collective rights and social security legislation is not significantly associated with levels of inward investment. However, there are exceptions to this overall finding. The inflows of foreign direct investment (FDI) into countries with a low level of alternative employment contracts and those with a low level of social security legislation are significantly higher than in countries with a high level. Possible explanations centre on law enforcement, alternative determinants of investment, host country factors and systemic integration. The findings raise broad implications for the need for institutional complementarities, but also raise questions about FDI behaviour, both in the light of European legislation and in respect of achieving collaborative relationships at the workplace level.

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There are many reasons underlying the decision of MNCs to enter specific markets. In the international business literature, much attention has been directed at industry-based and resource-based views. However, these perspectives tend to neglect the institutional framework within countries that provides the context for competition

(Peng et al, 2008). There has been growing acknowledgement within this body of literature that host country institutions, including those relating to industrial relations, can be an important factor in determining MNC behaviour (Tuselmann et al, 2006; Jackson and Deeg, 2008). The issue of employment rights is of great significance. Firstly, the dominance of neo-liberal ideologies in the 1990s and early 2000s challenged the legitimacy of employment protection; MNCs may have been swayed by this ideology to shun markets where employee protection is strong. A second and related reason is that MNCs may be encouraged towards light regulation owing to the intensifying competitive pressures associated with globalisation, prompting a 'race to the bottom'.

This article explores the relationship between the regulation of employment and the decisions of multinational corporations (MNCs) to invest in emerging markets within Central, Southern and Eastern Europe. Much of the existing literature on human resource management (HRM) and MNCs has focused on variations in HR practice according to the locale of subsidiaries (Royle and Ortiz, 2009). However, less attention has been paid to how the proscribing of human resource (HR) practices by legislation has shaped the entry into such locales, and also the scale of investment. MNCs may choose to enter an economy through a range of means. These may include entry through: licensing, exporting, or foreign direct investment (An et al, 2008). In this article, there is a focus on the latter, given the immediate employment and HR implications of foreign direct investment (FDI). In doing so, the propensity to invest is compared to the degree of employment rights accorded to employees under the law. Attention focuses on emerging markets in Central, Southern and Eastern Europe where there is divergence in institutional frameworks through gradual industrial development or extended transition (Lane, 2007). The analysis of factors influencing

investment of MNCs in these countries is a ripe area for exploration, given the growing interest in HR practices in these countries and the shift of FDI flows toward them in recent years (Bevan and Estrin, 2004; Meyer and Peng, 2005; Scullion et al, 2007).

The article proceeds as follows. The first sections examine the contextual and institutional factors affecting MNC investment decisions and discuss the challenges involved in measuring the impact of employment legislation on foreign direct investment. Subsequently, three hypotheses are posited, which are then tested through analysis of data relating to foreign direct investment and employment rights. Finally, there is consideration of the implications of these findings for extending knowledge on the influence of employment regulation on foreign investment, and for potential lessons for policy and practice.

Institutions, Employee Rights and Investment

The following sections outline the contextual factors impacting on MNC investment decisions and examine the influence of institutions relating to property and labour rights. In doing so, they acknowledge the challenges inherent in measuring the impact of employment law, but also its potential effects on the HR practices of foreign direct investors.

Contextual factors affecting MNC investment decisions

There has been growing interest in understanding the dynamics of context on what firms do. As multinational corporations (MNCs) straddle national boundaries, they are

of particular interest in that they share certain common organisational features. This greatly facilitates the analysis of the effects of locale on HR practices. Whilst the literature on comparative and international HRM in the 1980s and early 1990s was dominated by cultural accounts (see Hofstede, 1991), this interest has more recently shifted to institutions (Brewster et al, 2008; Farndale et al, 2008). As embedded sets of rules and ways of doing things, institutions not only encompass culture, but a wide range of other established structures, ranging from education to national bargaining institutions (Parsons, 1951).

Existing institutional accounts in the HRM and associated socio-economic literature have focused primarily on the effects of interlocking webs of social relations, and hence, on what sets of HR practices are likely to be encountered in different national contexts (Hall and Soskice, 2001; Thelen, 2001; Brewster et al, 2008; Sorge, 2004). In other words, firms are more likely to choose to manage people in a particular way in a particular setting owing to both formal rules and unwritten conventions and expectations, the latter allowing for a reduction in transaction costs between key players (Marsden, 1999).

The institutional framework within a country can influence decision-making at a lower level. What actors do represents not only the products of structures, but also real choices (Sorge, 2005). Firms may choose to adopt a dominant way of doing things in a particular setting, but may also choose to innovate (Sorge, 2005; Boyer, 2006). Moreover, they may choose to abandon, or not enter the game at all, if the rules and conventions are not to their liking. Recent research evidence points to a linkage between employment issues and the decision of firms to enter particular markets via FDI. One linkage is the relevance of labour costs to investment decisions. Mukherjee (2007) found that there was a linkage between relative costs of labour;

more expensive labour led to firms opting for a mix of entry strategies, rather than a concentration on FDI (Mukherjee 2008: 1636). Similarly, Cooke (2001) found that generally MNCs preferred entering countries with the most flexible labour markets and the lowest labour costs. Other research has pointed to the importance of both labour costs and employment legislation (see, for example, Radulescu and Robson, 2008; Haaland and Wooton, 2007). Haaland and Wooton (2007: 477) found that whilst the most flexible labour markets were the favoured destinations, in higher risk contexts, employment protection was dominant in determining FDI. Firms wanted to reduce the costs of extracting themselves to a minimum, should they be forced to exit. In lower risk contexts, wage levels were likely to be more important, as a premature exit will be less likely. Moreover, Bellak et al. (2008) found that whilst firms were deterred by higher labour costs, they were more likely to enter markets where productivity rates were higher. This could suggest that measures to promote productivity, such as the encouragement of participation and commitment through legislation may encourage firms to enter markets.

Whilst it is acknowledged that labour costs are an important factor, this article seeks to focus on the impact of employment relations legislation on FDI, given the body of literature that already exists on pay effects, and the importance of present debates on the impact of law on competitiveness (Bellak et al, 2008; Haaland and Wooton, 2007). Morin (2005: 6) notes that employment relations can be considered from two positions. Firstly, the relative power of each party in the employment contract. Secondly, the nature of changes in HR and employment relations, and the options open to the enterprise in determining its future directions (ibid.: 7). Whilst the law may determine the relationship between the key parties in employment relations - the state, employers and employees - it is also likely to impact on the strategic choices

of the organisation regarding the types of practices that it employs, and the locale where the firm chooses to operate.

Institutions, Property and Labour Rights

Analyses of institutions often focus on the importance of property rights. Institutions themselves may either be conceived as centres of networks of a wide range of different social relations, or the providers of incentives and disincentives for rational actors (Goergen et al., 2009; Boyer, 2006). The former would suggest that no particular institutional feature is of overwhelming importance. However, as some incentives are likely to be stronger than others, the latter point of view would suggest a hierarchical understanding: some institutional features will be more important than others, and indeed, mould how the others operate (ibid.). Within rational choice economics and finance, the dominant paradigm is predictably a hierarchical one, with the institutional mechanisms assuring property rights standing at the apex (ibid.; North 1990).

Property rights are linked to employment legislation; institutions do not operate on their own, and it is important to consider interactional effects. If the rights of property owners determine the securing of optimal economic returns, then anything that circumscribes what owners can do necessarily erodes their rights (Botero et al, 2004). Hence, any rights accorded to employees will diminish those of owners (ibid.; Goergen et al, 2009). Worker rights will encourage ‘collusion’ with management at the expense of owners as both workers and managers have an interest in a large organisation with a secure workforce, given managers’ natural inclination to ‘empire building’ and workers’ for protection to ‘shirk’ (La Porta et al, 1998; 2000). Of

course, this view assumes a zero sum game - if one side gains, the other perforce must lose. It may be the case that complementarities leave all sides better off (Goergen et al, 2009; c.f. Botero et al, 2004).

The relationship between employment rights and investment decisions has caused some debate. The body of work associated with La Porta et al (1998; 2000; Botero et al, 2004) has been widely cited (Cooney et al, 2010). Nor is their influence confined to academia; the World Bank has through its *Doing Business Project* taken on board the Botero et al (2004) index of worker rights (Cooney et al, 2010). Countries that have more worker protection are condemned as poorer environments within which to do business. The *Doing Business Project* represents merely one of the more recent of a plethora of neo-liberal inspired policy interventions by international financial institutions that have aimed to promote deregulation of the markets for goods, services and labour (see Moody, 1997).

Limits and alternatives to measuring the impact of employment law

The analysis of the impact of employment regulation can be based on a range of measures. The Botero et al (2004) index of worker rights has been widely used. Critics of this index have charged that in concentrating on formal law, it discounts the actual effects of collective agreements, which may have similar effects in ensuring that parties engage in specific rules of fair play (Deakin et al, 2007: 144; Radulescu and Robson, 2008). Indeed, what is regulated under formal law in one system may be shaped by collective agreements in another (ibid.). Deakin et al (2007) have developed an index that seeks to address this, but as yet it has been limited to five countries. Other indices have been based on OECD data, but only for the years 1995

and 1997 (see, for example Radulescu and Robson, 2008; Dewit et al, 2009). The analysis carried out here draws on the Botero et al (2004) analyses of employment regulation and protection that were developed to evaluate the determinants of labour law since this dataset covers a wide range of countries, including emerging markets within Europe.

A potential limitation of the measurement of employment regulation is the possibility that the degree of employment regulation may not influence firm behaviour in reality. Against this must be considered the fact that product market deregulation - the freer movement of goods and services across national boundaries- has greatly heightened competition. In the transitional economies this has had the effect of undermining collective bargaining and fuelling the growth of low wage employment (Bosch et al, 2007: 269). This means that the role of formal law in protecting workers may have become more important. Whilst law enforcement in many countries in the region is at best variable, it is likely that larger higher profile enterprises – such as MNC subsidiaries – are less likely to be in a position to evade the law.

A further consideration to be taken into account in examining the impact of employment regulation is that whilst broad predictions may be borne out by empirical evidence, analyses may discount the effects of systemic change; for example in the United Kingdom, employee rights were substantially rolled back in the 1980s, with subsequent changes under Labour rule only partially reversing these setbacks (Deakin et al., 2007: 146). In the economies undergoing long transitions in South Eastern Europe, there are strong pressures against strengthening the rights of employees, with only Slovenia making concrete steps towards the cooperative paradigm encountered in continental Western Europe (Lane, 2007). Moreover, the general growth of

informal work in the region has meant that the fiscal basis of states has been weakened, limiting future policy options, whilst undermining employment regulation initiatives in the formal sector (Bosch et al, 2007: 259). Nevertheless, employment rights are arguably a central feature of systemic change.

Finally, care must be taken in interpreting results. MNCs are able to invest in situations where there is heavy employment regulation, since subcontractors can bear most of the risks. Firms can reduce the risk of locating operations in unfamiliar or potentially challenging locales for the sake of lower labour or other production costs, with the risk and responsibility instead being borne by the subcontractor (Morin, 2005:12; An et al, 2008). However, firms have more alternatives to direct investment in situations where employees have stronger legal rights, and hence may be better equipped to challenge overall corporate agendas.

The impact of employment regulation on the HR practices of FDI

What has been the impact of the relationship between employment regulation and investment decisions on HR practice? Three alternative explanations are possible. Firstly, it could be argued that firms are indeed likely to be deterred from investing according to the restrictions placed on them governing the employment contract, and how they manage their people (Mukherjee, 2008). This means that MNCs are less likely to enter economies where worker rights under the law are strong and more likely to do so when they are weak. Secondly, it could be argued that strong owner rights in the country of origin might mitigate against weaker rights in the host country (as senior managers are likely to be 'reigned in', they will be less able to 'collude' with workers in overseas subsidiaries). Thirdly, it could be argued that relative

worker (and by implication owner) rights are only one of a number of features determining decisions to invest. Higher labour productivity also impacts on decisions to invest (Bellak et al, 2008) and in turn, productivity may be promoted through labour legislation that encourages long term interdependence between employers and employees (Whitley, 1999).

Other influences on investment might include the level of political or investment risk, with MNCs being deterred from investing in riskier countries. As Gunter and Van Hoesven (2009) have argued, there has been a twenty-fold increase in FDI over the past fifteen years, but the share going to 'riskier' countries has decreased. Entry into the European Union may have decreased perceptions of risk for investment in a number of emerging economies in Europe, increasing the propensity for foreign direct investment. However, a greater influence on investment in Central and Eastern countries has arguably been low wages (Bevan and Estrin, 2004). Competitive pressure to reduce wage costs and taxes has long been apparent in high to middle income countries (Gunter and Van Hoesven, 2009). In contrast, the reluctance of continental European countries to cut wages led to worsening unemployment, but precluded the same declines in social equity encountered in liberal markets (Gunter and Van Hoesven, 2004: 18). Intensive competition to attract MNCs led to the creation of new jobs in less developed countries, but often among the most vulnerable categories of labour, with the traditional workforce facing job cuts (ibid.: 18).

In summary, the relationship between employment regulation and decisions to invest is a complex one, and there can be diverse impacts on HR practices. Variations in labour standards do not necessarily create 'a race to the bottom' (Gunter and Van Hoesven, 2004: 19) and low levels of employment regulation may not be the primary decision underlying choices to enter specific markets (see Rose and Ito, 2009).

Statement of Hypotheses

The essentially neo-classical foundations of the approach of La Porta and colleagues assume that the effects of institutions are primarily negative, other than in terms of securing property rights (Goergen et al, 2009; Bosch et al, 2007). In contrast, the Varieties of Capitalism's literature's strong emphasis on complementarities challenges this. The institutional framework within both Liberal Market Economies and Coordinated Market Economies may lead to effective production. As An et al. (2008: 8), suggest, MNCs may be guided in their decisions according to the rent extraction times. In other words, while some will be looking for fast profits and a flexible workforce, others may be willing to wait for a longer time period, with the expectation that increased employee commitment will yield higher returns in the long run. Higher value added production paradigms can be associated with stronger worker protection within a more cooperative business systems. Sets of practices work better together than they do individually; knowledge of the possibilities of complementarities allows firms to optimise the benefits accruing from operating in a particular setting (Crouch, 2005). This means that a system as a whole may work better than an analysis of individual practice might suggest. And, as different complementarities are likely to emerge in different locales, there is no inherent reason why one system will not necessarily work better than another (Hall and Soskice, 2001). In practice, this means that an investment environment with strong worker rights may be as attractive as one with weak ones. In the former, stronger employment protection and more advanced forms of participation, may for example, result in higher levels of commitment and optimise human capital development

(Harcourt and Wood, 2007). In the latter environment, weaker levels of employment rights and protection might be attractive to MNCs that intend to reduce labour costs. The existence of contrasting perspectives on the influences on MNC investment decisions has led to the development of three hypotheses. The first hypothesis relates to individual employment rights, and in particular those that might relate to numerical flexibility, and the ease of firing workers.

Hypothesis 1: The relative extent of individual employment rights is unlikely to deter multinationals from investing in a particular economy.

The second hypothesis relates to collective rights, including the power of the trade union and the bargaining structures in place that might either be perceived to enhance or restrict operations.

Hypothesis 2: The relative extent of collective rights is unlikely to deter multinationals from investing in a particular economy.

The third hypothesis addresses the existence of social security legislation. The employment benefits due to workers might be perceived to encourage commitment, or conversely might be regarded as additional costs.

Hypothesis 3: The relative extent of social security legislation is unlikely to deter multinationals from investing in a particular economy.

Methodology

Data sources and measures used to test hypotheses

In order to evaluate the extent of foreign direct investment within countries, data was drawn from UNCTAD world investment reports. This enabled the analysis of two measures of MNCs' decisions to invest in the countries under study. The first is the ratio of the FDI inflows as percentage of the Gross Domestic Capital Formation (FLOW). The second is the ratio of the FDI inward stocks as percentage of the Gross Domestic Product (STOCK). Using the adjusted FDI inflows and inward stocks is appropriate for the purpose of this study because they take into account the size and domestic economic activities of host countries. Since the measurement of the impact of law is available for 1997 only, we use the data for the year 1997 (FLOW97 and STOCK97) and for the average of the period 1995-1999 (FLOW95-99 and STOCK95-99).

The existence of employment rights was measured through reference to the Botero et al paper (2004) that provides 'scores' for individual rights, collective rights, and social security for 85 countries across the world. To measure individual rights, Botero et al (2004) consider the establishment of rights related firstly to what they refer to as 'alternative contracts'. This is compiled of: the existence of benefits for part-time workers compared to full-time workers; the costs of termination of part-time workers compared to full-time workers; the use of fixed term work; and the maximum duration of fixed term contracts. Secondly, they consider the costs of increasing hours worked (overtime rates). Thirdly, they consider the cost of firing workers, and fourthly the dismissal procedures in place. To assess the level of collective rights they

include: labour union power (unionisation, labour power, collective bargaining, and employee representation on the board of directors and/or works councils) and collective disputes (the degree of protection provided to workers during disputes). To evaluate the relative use of social security laws they consider those relating to: old age, disability and death benefits; sickness and health benefits; and unemployment benefits. Their analysis helped to provide clarification on the determinants of labour law. In contrast, this article seeks to relate employment rights to investment decisions.

The index developed by Botero et al (2004) covers 85 countries. This article aims to cover a range of countries within Central, Eastern and Southern Europe. Therefore, the following countries form the focus of attention:

Put table one here

Methods of analysis

The methods of analysis employed for this study include firstly, the ranking of countries according to their placing within the employment law index developed by Botero et al. (1994). Countries were ranked as having a low, medium or high level of individual employment rights, collective employment rights or social security legislation. For each of these aspects, a country was ranked as having a high level of rights if the employment laws index was above the 70th percentile value of the sample and a country was ranked as having a medium level if the country fell between the 30th percentile and the 70th percentile values of the sample. Countries below the 30th percentile were ranked as having a low level of rights.

The next stage of the analysis involved conducting a Kruskal-Wallis test in order to assess whether there were significant differences between groups of countries according to composite measures of rights. The Kruskal-Wallis test is the non-parametric alternative to a one-way between groups analysis of variance where there is one categorical variable (for example, individual rights) with two or more groups (in this case a high/ medium or low level of rights) (Pallant, 2005). The analysis of composite measures was followed by breaking them down into their constituent parts and assessing whether significant differences appeared at this more specific level.

The third stage of the analysis involved assessing the extent of difference between countries where a simpler division of countries was carried out, using a t-test to compare countries with a high or low level of employment rights.

Finally, a further stage in the analysis tested whether there was any difference in results when excluding the countries of Spain, Italy and Portugal, where there might be some dispute as to whether the countries can be considered as either emerging markets or as more advanced economies.

Results

The first stages of the analysis covered all of the nineteen countries within the study. The 19 countries were ranked according to their levels of individual and collective employment rights and levels of social security. These rankings are shown in the table below:

Put table two here.

As explained above, the first hypothesis is:

Hypothesis 1: The relative extent of individual employment rights is unlikely to deter multinationals from investing in a particular economy.

To examine the validity of the first hypothesis, a nonparametric Kruskal-Wallis test was conducted, examining the relationship between the level of individual employment rights and inward investment according to both flows and stocks. The result from the nonparametric Kruskal-Wallis test showed that there was no significant difference among countries with different levels of individual rights in terms of inward FDI. This result was robust across all four measures of FDI activities. Therefore, the results are consistent with Hypothesis 1.

We further examined the relationship between the different forms of investment and the three aspects of individual employment rights: (1) Alternative employment contracts; (2) The cost of firing workers; and (3) Dismissal procedures. We found that there was no significant difference between the groups of countries that were ranked as having high, medium or low levels of individual employment rights. These results are shown in Table 3.

Put table 3 here.

The Kruskal-Wallis test assessed countries that had been ranked according to whether they each had low, medium or high levels of individual employment rights. A further

test was subsequently carried out to assess whether similar results would occur when countries were simply divided into those with either a low or high level of employment rights. A country was ranked as having a low/high level of individual rights if the employment laws index was below/above the average value of the sample. The test that was used in this case was the t-test. Similar results were found. There were no significant differences, with one exception: the inflows of FDI as a percentage of the Gross Domestic Capital Formation (measured at 1997 and at the average of the period 1995-1999) in countries with a low level of alternative employment contracts were significantly higher than in countries with a high level of alternative employment contracts. As explained above, 'alternative employment contracts' refer to: the existence of benefits and the costs of termination for part-time workers compared to full-time workers; the use of, and maximum duration of fixed term contracts; the costs of increasing hours worked; the cost of firing workers, and the dismissal procedures in place. These results are shown in Table 4.

Put table 4 here.

The next stage of the analysis sought to address the relationship between the use of collective rights and FDI.

Hypothesis 2: The relative extent of collective rights is unlikely to deter multinationals from investing in a particular economy.

To test H2, countries were ranked as having a low, medium and high level of collective rights using the collective relations laws index developed by Botero et al.

(1994). As mentioned above, the measures used to assess collective rights included: labour union power (unionisation, labour power, collective bargaining, and employee representation on the board of directors and/or works councils) and collective disputes (the degree of protection provided to workers during disputes). The results from the nonparametric Kruskal-Wallis test showed that there were no significant differences among countries. These results were evident for all four measures of FDI activities. Therefore, the results lend support for Hypothesis 2. There was also a more specific examination of the relationship between FDI and protection during collective disputes. It was found that there were no significant differences in inward FDI.

The results from t-tests, which compared the inward FDI of countries according to high or low levels of collective law, and then high or low levels of protection during industrial disputes, showed very similar results to the previous analysis, with no significant differences. These results are shown in Tables 5 and 6.

Put tables 5 and 6 here.

The third hypothesis related to the level of social security legislation in place within the host countries, and the degree of inward investment.

Hypothesis 3: The relative extent of social security legislation is unlikely to deter multinationals from investing in a particular economy.

To test H3, countries were ranked as having low, medium and high extent of employment protection using the social security laws index developed by Botero et al. (1994). The result from the nonparametric Kruskal-Wallis test showed that there was

no significant difference among countries with different levels of social security legislation in terms of inward FDI. The result was robust across all four measures of FDI activity. This is consistent with Hypothesis 3. This was followed by a further examination of whether the decisions of MNCs to invest varied according to the specific types of social security legislation that formed the constituent parts of the index: (1) Old age, disability and death benefits; (2) Sickness and health benefits; and (3) Unemployment benefits. The results from the Kruskal-Wallis test, shown in Table 7, revealed that the differences were insignificant across each of these areas.

The results from the t-test, which compared the inward FDI of countries that have a below-average score on the social security laws index with that of countries with an above average score showed a different picture. The average inflows of FDI and inward stock of FDI during the period of 1995-1999 of countries with a below-average score were higher than for those with an above-average score. These results are shown in Table 8.

Put tables 7 and 8 here.

It could be argued that Portugal, Spain and Italy are more developed countries than the others within the list of countries covered. Additional tests were therefore carried out in order to assess whether the results varied when these countries were excluded from the analysis. However, the results were very similar to those for the full sample of 19 countries, as shown in Table 9.

Put table 9 here.

In summary, the general picture was a lack of support for the three hypotheses, but with some important exceptions.

Concluding Discussion

This article engages with the increasing body of literature that has sought to evaluate HR practices within Eastern, Southern and Central Europe, and the flows of inward investment toward them (Bevan and Estrin, 2004; Meyer and Peng, 2005; Scullion et al, 2007). Through the testing of three hypotheses, the intention was to examine the relationship between the level of employment rights and different forms of inward foreign direct investment.

The findings showed broad support for the three hypotheses. In other words, that the level of individual and collective rights and social security legislation was not significantly associated with levels of inward investment. However, there were two exceptions to this overall finding. The first exception related to the level of 'alternative contracts'. The inflows of FDI into countries with a low level of alternative employment contracts were significantly higher than in countries with a high level of alternative employment contracts. Following Botero et al (2004), the term 'alternative employment contracts' covers: the benefits and costs of termination for part-time workers, fixed term contracts, overtime costs, and the procedures for and costs of dismissal. The second exception was in relation to the levels of social security. The average inflows of FDI and inward stock of FDI during the period of 1995-1999 of countries that had a below-average score on the social security laws index were higher than for countries with an above-average score. Therefore, this

lends a degree of support to the suggestion that firms might be more attracted to invest where there are lower levels of employment rights.

Nevertheless, the overall picture is one of the limited apparent influence of employment rights on decisions to invest. There might be a number of explanations for this finding. Firstly, it might be surmised that law does not matter very much. In other words, although legislation is in place, formal measures do not really work in the region in practice. This would highlight problems with poor law enforcement. A contrasting explanation is that other determinants of investment are more influential than employment legislation. These determinants might include the costs of labour in wage terms (Cooke 2001; Bevan and Estrin 2004; Mukherjee, 2007). A third possible explanation is that it is not the legislation in the host country that is important but legislation in the country of origin, particularly where there are strong owner rights in the country of origin. Firms are not influenced by the level of employment rights within a host country because they are powerful enough to either adapt their methods or to influence legislation over time. If employment regulation is lighter within an emerging market this could be because powerful MNCs have already been influential in altering it. However, it should be noted that to date, analyses of the relative power of Multinationals versus the effects of regulatory and institutional context tend to point toward the continued dominance of the latter in determining MNC HR practices (see, for example, Schief, 2010). Fourthly, firms may ignore employment rights because there is currently a limited level of systemic integration of employment rights and other rights within countries in Central, Eastern and Southern Europe. Indeed, Lane (2007) has suggested that Slovenia is the only country that has moved toward the cooperative paradigm that is apparent within some parts of western continental Europe. In other words, the level of employment rights would matter more if there

were more developed institutional linkages. A final potential explanation that helps to shed light on why there are no clear trends in behaviour is that perhaps there are as many firms that can harness complementarities opened up by high labour rights regimes as there are those that are deterred by such as an environment. Different systems may be equally acceptable since different complementarities will emerge in different locales (Hall and Soskice 2001).

The findings help to further open up the debate on FDI and HR practices. However, there are a number of limitations to the analysis presented here. The intention of this article was not to compare the situation in those countries that had entered the European Union with those that have not, although this would be a potentially useful development in future analyses. For example, Bevan and Estrin (2004) found that an announcement about timetables for admission into the European Union increased the levels of FDI into prospective member countries; European level employment regulation is also likely to impact on member countries. Moreover, it was not possible to compare the apparent behaviour of organisations depending on their country of origin. Future analyses might seek to explore the differences between organisations depending on whether they originated from liberal market economies or coordinated market economies.

The article's findings have certain implications for government policy and legislation. If MNCs are able to largely ignore legislation on employment rights, or are able to influence them to suit their own needs, then this might then suggest that evaluations of worker rights, such as those undertaken by international institutions might be inconsequential (Cooney et al 2010); it is not necessary for international institutions to seek to influence countries to lower employment rights in order to attract investment (Moody 1997). At the national level, the lack of apparent attention

paid to higher or lower levels of employment rights might deter governments from seeking to lower employment rights in order to attract inward investment. They might instead prefer to ensure that there are institutional complementarities. In other words, rather than seek a lower road scenario, they might seek to move to a more cooperative system of employment rights where labour influence helps to ensure greater employee commitment and productivity in the longer term.

Further implications emerge for foreign investors. Firstly, companies appear to largely ignore the levels of employment legislation within a potential host country, but will need to consider the potential impact of European legislation on member countries in the longer term. Secondly, it appears that companies are not necessarily more motivated to invest where there are lower labour costs, but neither are they seeking areas where labour legislation is strong. Yet stronger labour legislation implies more ethical trading, and companies might be encouraged to consider the potential profits gained by ethical trading. Thirdly, it appears that investment decisions have tended not to be made according to the level of collective rights within particular countries. However, companies might wish to consider future investment in areas where collective rights are high. In emergent economies it might be easier to negotiate win-win solutions with trade union bodies. Where there are strong institutions meaningful dialogue can present opportunities for collaborative networks, leading in turn to higher productivity.

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Table 1: Countries covered within this study

Region	Country
Eastern Europe	Armenia Georgia Kazakhstan Kyrgyz Republic Latvia Lithuania Russian Federation Ukraine
Central Europe	Czech Republic Hungary Poland Slovak Republic Slovenia
Southern Europe	Bulgaria Croatia Italy Portugal Romania Spain

Table 2: Ranking of countries in terms of individual and collective employment rights and social security

	Low	Medium	High
Individual laws	Armenia Bulgaria Croatia Czech Republic Hungary Romania	Italy Latvia Lithuania Poland Slovak Republic Slovenia Ukraine	Georgia Kazakstan Kyrgyz Republic Portugal Russian Federation Spain
Collective relations Laws	Bulgaria Croatia Czech Republic Kyrgyz Republic Slovak Republic Slovenia	Armenia Georgia Latvia Lithuania Poland Romania	Hungary Italy Kazakstan Portugal Russian Federation Spain Ukraine
Social security Laws	Croatia Czech Republic Georgia Kazakstan Latvia Poland	Armenia Hungary Italy Lithuania Portugal Romania Slovak Republic	Bulgaria Kyrgyz Republic Russian Federation Slovenia Spain Ukraine

Table 3: The Relative Extent of Individual Employment Rights and Inward FDI – Results of the Kruskal-Wallis Test

Index		FLOW97	FLOW95-99	STOCK97	STOCK95-99
Employment laws	KW	2.421	3.174	-0.211	-0.211
Alternative employment contracts	KW	0.420	1.567	0.171	-0.286
Cost of firing workers	KW	3.010	2.899	-0.377	-0.605
Dismissal procedures	KW	0.079	0.729	0.767	0.195

KW = Kruskal-Wallis test statistics. * indicates a test significance level of less than 5%.

Table 4: The Relative Extent of Individual Employment Rights and Inward FDI – Results of the t-Test

Index		FLOW97	FLOW95-99	STOCK97	STOCK95-99
Employment Laws	t Stat	-1.096	-0.077	-0.234	-0.216
Alternative employment contracts	t Stat	2.274*	3.145*	1.291	1.232
Cost of firing workers	t Stat	-0.238	-0.586	0.678	0.398
Dismissal procedures	t Stat	-0.642	-0.144	0.147	0.062

t-Stat = t-test statistics. * indicates a test significance level of less than 5%.

Table 5: Collective Rights and Inward FDI – Results of the Kruskal-Wallis Test

Index		FLOW97	FLOW95-99	STOCK97	STOCK95-99
Collective relations laws	KW	3.714	3.608	-0.507	-0.365
Collective disputes	KW	0.521	1.947	0.079	-0.316

KW = Kruskal-Wallis test statistics. * indicates a test significance level of less than 5%.

Table 6: Collective Rights and Inward FDI – Results of the t-Test

Index		FLOW97	FLOW95-99	STOCK97	STOCK95-99
Collective relations laws	t Stat	0.081	0.600	-0.430	-0.445
Collective disputes	t Stat	-0.604	1.573	-0.447	0.209

t-Stat = t-test statistics. * indicates a test significance level of less than 5%.

Table 7: The Relative Extent of Employment Protection and Inward FDI – Results of the Kruskal-Wallis Test

Index		FLOW97	FLOW95-99	STOCK97	STOCK95-99
Social security laws	KW	1.681	4.829	0.226	0.550
Old age, disability, and death benefit	KW	-0.166	1.742	1.031	1.055
Sickness and health benefits	KW	0.797	0.881	4.544	3.305
Unemployment benefits	KW	2.778	4.871	1.567	2.652

KW = Kruskal-Wallis test statistics. * indicates a test significance level of less than 5%.

Table 8: The Relative Extent of Employment Protection and Inward FDI – Results of the t-Test

Index		FLOW97	FLOW95-99	STOCK97	STOCK95-99
Social security laws	t Stat	1.016	1.955*	1.744	1.856*
Old age, disability, and death benefits	t Stat	-0.433	0.823	1.201	1.066
Sickness and health benefits	t Stat	1.247	0.792	0.674	0.746
Unemployment benefits	t Stat	0.452	1.229	-0.522	-0.172

t-Stat = t-test statistics. * indicates a test significance level of less than 5%.

Table 9: The Relative Extent of Impact of Employment Laws and Inward FDI – Robustness Check

Index		FLOW97	FLOW95-99	STOCK97	STOCK95-99
Employment laws	KW	-0.191	0.265	-0.279	-0.434
Collective relations laws	KW	3.714	3.608	-0.507	-0.365
Social security laws	KW	1.681	4.829	0.226	0.550
Employment laws	t Stat	-0.785	0.364	0.479	0.513
Collective relations laws	t Stat	-1.027	-0.457	-0.639	-0.396
Social security laws	t Stat	0.779	1.114	1.957*	2.003*

KW = Kruskal-Wallis test statistics. t-Stat is the t-test statistics. * indicates a test significance level of less than 5%.