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Intereconomics

*Suggested Citation:* Straubhaar, Thomas; Wolter, Achim (1997) : Globalisation, internal labour markets and the migration of the highly skilled, Intereconomics, ISSN 0020-5346, Nomos Verlagsgesellschaft, Baden-Baden, Vol. 32, Iss. 4, pp. 174-180, <https://doi.org/10.1007/BF02928431>

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## Globalisation, Internal Labour Markets and the Migration of the Highly Skilled

*Over the last decade highly skilled migration has been gaining relative importance in European migration flows. Following the goods and factor markets the market for highly skilled labour has thus also started to globalise. How are the globalisation processes of the world-wide goods, capital and labour markets interlinked? What role do international enterprises and their internal labour markets play in increasing highly skilled migration? What trends can be expected for the future?*

Globalisation might become the catchword of the 20th century. In the period following World War Two technological innovations have effectively changed the earth into "One World". The basic trigger of this process has been the tremendous decrease in transaction and transportation costs due to the advances in microelectronics in recent decades:

- first, progress in computer technology has allowed firms to store and process ever larger amounts of information;
- second, progress in telecommunication technology has enabled firms to transfer information at low cost over ever wider distances;
- third, the development of reprogrammable manufacturing machines has allowed firms to combine economies of scale with smaller plant sizes and to redefine their product ranges.

On the whole, the technological advances in microelectronics have thus considerably narrowed "space" and shortened "time". Goods and factor markets have become much closer and more interlinked. Previously segmented, national factor

markets have opened up to global capital and labour markets with all forms of country-crossing co-operation.

The globalisation of labour markets adopts various forms. For the relatively unskilled "blue-collar" workers in Western Europe globalisation either takes the *indirect* form of "cheap" imports of standardised goods (especially in the traded and more industrialised sectors, e.g. toys or textiles from East Asia) or the *direct* form of "cheap" labour immigration (particularly in the non-traded and more service-oriented sectors, e.g. construction, restaurants, tourism). In this segment of the labour market globalisation implies a surplus of unskilled labour and a relative scarcity of complementary production factors like (human) capital. The consequence is tough competition and pressure towards a world-wide equalisation of purchasing powers for the unskilled labour force.

For the relatively highly skilled "white-collar" specialists globalisation offers the opportunity to search *world-wide* for the most attractive complementary production factors. They can communicate, cooperate and sell their know-how around the globe. As a result they increasingly choose their main place of living according to the expectations of return on their human capital investments. To optimise their return, they need to evaluate the international transferability of their firm-specific and location-specific knowledge. The employers have to solve a similar strategic problem: how can they globalise their firm-specific assets to break up foreign markets? In this

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For a more detailed version of the present paper see A. Wolter and T. Straubhaar: Europeanisation of Production and the Migration of the Highly Skilled, HWWA discussion paper No. 41, 1997. The authors would like to thank the participants of a joint workshop of the University of the Federal Armed Forces and the HWWA-Institute for Economic Research, Hamburg for their comments on this earlier version.

regard the cross-border intra-firm mobility of highly skilled technical and managerial experts proves a very efficient strategy for transferring firm-specific know-how from the headquarters to the subsidiaries and vice versa. The following remarks concentrate on these aspects of internal labour markets and the international migration of the highly skilled within the firm.

**Some Stylised Facts**

Figure 1 shows that the share of highly skilled persons among the intra-European migrants has been rising in the last decade. Within the seven EC countries (EC-7) for which data is available this ratio has doubled from about 11% to 22% from 1988 to 1994. Overproportionally many of these highly skilled migration movements have originated from the Northern European countries. The most important target countries were the Southern European countries in the case of the EC-7 and – due to the inclusion of France and the Netherlands – the Northern European countries in the case of the EC-12. The dominant direction of highly skilled migration movements in Europe is thus from the North to the South within the EC-7 countries and from the North to the North within the EC as a whole.

Figure 2 confirms most EC-wide migration trends for Germany:

□ first, the share of highly skilled EC migrants to Germany has risen, too, namely from 4% in 1976 to 11.5% in 1987. The decline back to about 6% from 1987 to 1990 is mainly due to reduced British highly skilled migration to Germany combined with a

generally rising inflow of unskilled labour at the end of the 1980s;

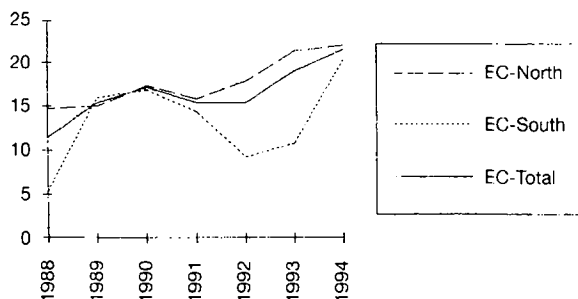
□ second, throughout the whole observation period overproportionally many highly skilled migrants in Germany have been nationals of other Northern European countries and underproportionally many highly skilled migrants have possessed the nationality of one of the Southern European countries.

**The Role of International Enterprises**

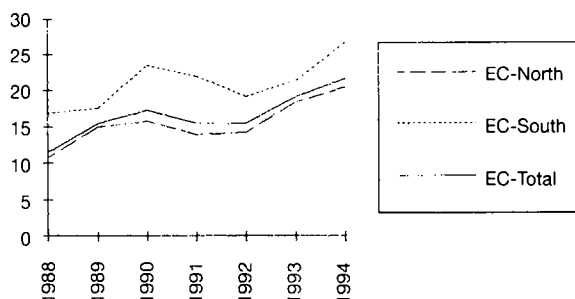
In the following, we will discuss the contribution of international enterprises to this increasing migration of highly skilled workers. Globalisation has led to an increasing internationalisation of production processes. Bigger markets allow for economies of scale and make international specialisation more attractive. Firms split up their activities and they cooperate and integrate vertically on an international scale. Intra-firm trade in goods and particularly intra-firm trade in services, know-how and managerial knowledge have risen sharply. “Made by Mercedes” has replaced “made in Germany”. Terms like “corporate identity” and “one standard strategy” indicate that firms think globally – even if they have to act more locally than ever! To enforce firm-specific standards, to secure their reputation, credibility, goodwill and image world-wide, enterprises have to establish an intra-firm network to provide headquarters, branches, service-centres and profit-centres with firm-specific information and knowledge. Besides electronic intra-firm communication networks the intra-firm mobility of technical and managerial experts is another main channel of world-wide intra-firm relations.

**Figure 1**  
**Development of the Relative Share of Highly Skilled Migrants in the EC-7 Countries' from 1988 to 1994**  
**According to Source and Target Countries in %**

**Highly skilled migration in %, Source countries, EC-7**



**Highly skilled migration in %, Target countries, EC-7**



EC-North = Belgium, Denmark, Germany, UK  
 EC-South = Greece, Ireland, Portugal

Source: Eurostat and own calculations.

**The Demand Side of Intra-Firm Migration**

To analyse the demand side of intra-firm mobility we treat foreign assignments as international transfers within the internal labour market (ILM) of international enterprises.<sup>1</sup> Therefore the question to be posed first in order to understand the firms' motives for using foreign assignments is why ILMs exist at all in profit-maximising enterprises. Today this question is habitually answered from the point of view of human capital theory:<sup>2</sup> Higher posts usually require the possession of firm-specific human capital. As a result vacancies in these posts are normally filled by internal promotions and not by external engagements to avoid costly training measures.<sup>3</sup> However, in reality there are also intra-firm secondments (e.g. of junior managers) the purpose of which is not to transfer know-how internally. Generally such secondments have to be seen as investments which follow economic rationality from a long-term perspective. In these cases the enterprises do not regard the concerned employees as sources of firm-specific skills yet but rather as possible acquirers of such skills to the long-term benefit of the firm.

Based on this reasoning Table 1 provides a taxonomy of the different economic motives for economically acting enterprises to contribute to highly skilled migration. According to Table 1 two broad categories of motives must be distinguished:

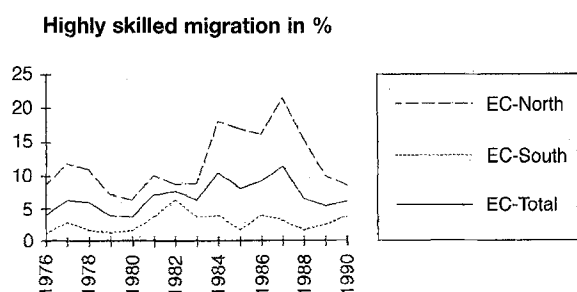
□ first, external applicants can be recruited by the firms from the external labour market abroad for posts which do not require firm-specific human capital but which demand skills that are locally scarce or even unavailable and therefore expensive (e.g. if experts are needed who possess specific knowledge about a foreign country);

□ second, enterprises might economically assign part of their staff internationally using the internal labour market for human capital or investment motives. From a human capital perspective firms might rely on foreign assignments to transfer technical or managerial know-how within the firm, to transfer headquarters assets to the subsidiaries (for the purpose of coordination, control or representation) or to adjust to a local demand shock. From an investment perspective on the other hand enterprises might have recourse to foreign assignments in order to promote the careers of promising executives or in order to prepare junior managers for an international career within the firm.

**The Supply Side of Intra-Firm Migration**

Table 1 indicates that international enterprises indeed show a demand for intra-firm cross-border secondments. However, in each particular case their latent demand will only lead to highly skilled migration if the benefits of the measure in question exceed its costs. Therefore in addition to the demand side of foreign assignments the supply side also has to be analysed, as the costs of such a measure hinge on the readiness of the employees to go abroad. Generally, people can be expected to move only if the net economic advantage gained outweighs the loss of their own location-specific assets. These location-specific assets consist of the knowledge about the comforts of life which the place of residence has to offer, of the personal relationship network and of the knowledge about firm and workplace specifics. If one assumes in accordance with neo-classical theory that a representative individual has to decide continuously whether to move or to stay, these location-specific assets constitute the most important factor in favour of the decision to stay: in his calculation the representative individual permanently compares the discounted sum of all expected future utility at his place of residence to the discounted sum of all expected future utility at any other place minus the migration costs. And even if the representative

**Figure 2**  
**Development of the Share of Highly Skilled EC Migrants to Germany between 1976 and 1990 According to Nationalities**



Source: IABS and own calculations.

<sup>1</sup> The concept of internal labour markets has been introduced by P. B. Doeringer and M. J. Piore: *Internal Labour Markets and Manpower Analysis*, Heath Lexington Books, London 1971.

<sup>2</sup> From a theoretical point of view the existence of internal labour markets can also be explained without any human capital arguments by the means of principal-agent theory. See e.g. J. M. Malcomson: *Work Incentives, Hierarchy, and Internal Labour Markets*, in: *Journal of Political Economy*, Vol. 92 (1984), No. 3, pp. 486-507.

<sup>3</sup> From a transaction costs point of view the costs of filling the vacancy internally are lower than the costs of filling it externally in this case. See O. E. Williamson: *Markets and Hierarchies: Analysis and Antitrust Implications*, The Free Press, New York 1975, p. 57 ff.

**Table 1**  
**Taxonomy of the Motives of an Economically Acting Enterprise to Contribute to Highly Skilled Migration**

I. International Recruitment Using the External Labour Market		
Who?	Why?	When?
Beginners or specialists	Because of a local shortage	Whenever demanded
Persons with country-specific knowledge	Because of local non-existence	Whenever demanded
II. Foreign Assignments Using the Internal Labour Market		
<i>a) For Human capital motives</i>		
Employees with the corresponding human capital	To transfer know-how within the firm	E.g. after opening or taking over a new establishment abroad
Executives	For co-ordination For control, representation	Permanently In centrally managed enterprises
Employees with the corresponding human capital	To adjust to a temporary local shortage of qualified employees	Following a demand shock
<i>b) For investment motives</i>		
Executives	To promote their career	Because of unsatisfactory local career opportunities
Junior managers	To prepare them for an international career within the firm	Permanently

Source: own presentation.

individual could obtain a higher income elsewhere at low migration costs, moving would imply losing his accumulated location-specific assets and hence giving up part of his present utility.

This concept of location-specific assets can be enlarged towards an analysis of intra-firm mobility. In fact firm-specific assets constitute one of the most important components of the location-specific assets. Generally speaking, the former consist of the knowledge an employee possesses about his employer and workplace. This knowledge is partly acquired on-the-job and partly provided by training and comprises the information about the hierarchical structures prevailing in the firm as well as the familiarity with the firm's products and production processes.<sup>4</sup> On the whole, the possession of these firm-specific assets considerably facilitates the employee's success in his job. At the same time their existence often renders job changes between firms unattractive: the loss of the own firm-specific assets when changing to another firm implies high costs of familiarisation with the new work environment which diminish the possibly attainable higher income. On the

international level these familiarisation costs are even higher than on the national level and thus represent one of the most important obstacles to international work migration between firms.

However, the same does not apply to foreign assignments within firms. Irrespective of their location the subsidiaries of one firm share certain common values which allow the transferee to familiarise rapidly with his new surroundings. Additionally it is frequently the objective of the assignment to transfer know-how within the firm. Hence the transferee does not lose his firm-specific assets but may on the contrary deepen them in getting to know a new establishment of his employer and in applying his knowledge to the new environment. This means that intra-firm foreign assignments allow the employees to maintain at least part of their location-specific assets. As a consequence the past growth of international enterprises has *ceteris paribus* raised the attractiveness of international intra-firm mobility in comparison to international inter-firm mobility.

However, the prevailing loss of location-specific assets is often still sufficient to prevent the employee from accepting a foreign assignment. Therefore, a firm wishing to second one of its employees usually has to compensate him for this loss. Normally this compensation takes the form of an increase in salary.<sup>5</sup> At the same time it is becoming more and more usual for

<sup>4</sup> To the extent to which these firm-specific assets define the productivity of the employer, they are also called firm-specific human capital. See G. S. Becker: Human Capital, 2nd edn., University of Chicago Press, Chicago and London 1980, who shows that employees generally have to invest themselves in their human capital, and that an employer will only pay for the firm-specific human capital not applicable elsewhere.

the employing firms to sell the secondment as a prerequisite for the employee's future (intra-firm) career or as a career step in itself. In the long run it also seems plausible that employers might try to influence the social value system in favour of greater personal mobility. Already today a clear trend can be perceived towards more personal flexibility and mobility and the more people internalise this way of life in the future the less it will cost employers to assign their employees internationally.

To summarise, the supply of highly skilled workers for intra-firm mobility is explained by the following two facts: first, international intra-firm mobility has become a more efficient adaptation strategy to structural changes in labour demand than inter-firm change. Leaving the country is cheaper than leaving the company if the loss of locational-specific assets from moving abroad is smaller than the loss of firm-specific assets from changing the enterprise. Second, the firm generally recompenses the readiness of its employees to go abroad by a higher salary or the promise of increased future earnings. As a consequence it can be assumed that the firms' demand for employees willing to work abroad is generally met by a corresponding supply.<sup>6</sup>

### A Dynamic Microeconomic Approach

Based on this understanding of the economic rationality of intra-firm foreign assignments Table 1 can be used to assess the impact of the internationalisation of production on the recent growth of highly skilled migration in Europe presented in Figure 1. In general, the motives contained in Table 1 are time-invariant. For this reason the impact of international enterprises on the level of highly skilled migration within an economic area solely depends on the occurrence of those motives within the firms. An application of this fact to the European case leads to the question as to what influence the rising internationalisation exercised on the occurrence of the corresponding motives within the European firms. This question can be answered with the help of a dynamic microeconomic approach relating the motives of Table 1 to the internationalisation process of enterprises. From such a dynamic perspective four phases of internationalisation of a firm can be discerned, each of them contributing in a different

way to highly skilled migration independently of the firm's industrial branch:

□ The first phase is generally shaped by the still largely national character of the firm whose internal labour market does not yet possess an international dimension. In this phase the enterprise hardly contributes to highly skilled migration. Only after taking up export activities may some new employees be engaged abroad via the external labour market.

□ The second phase, in contrast, is normally characterised by an ethnocentric growth strategy<sup>7</sup> of the firm. During this phase the firm starts to use foreign direct investment as a means of internationalising its activities and begins to open up sales establishments and later on also production sites. Since the opening up of these subsidiaries hinges on the successful transfer of firm-specific assets and skills, the firm's contribution to highly skilled migration rises sharply in this phase. However, the foreign assignments only take place *from* the headquarters to the new establishments, and mainly concern managers, who transfer the firm's production technology, culture and organisation structure abroad.

□ The third phase on its part is usually best described as a consolidation phase. In this phase the firm begins to achieve global coverage by opening up production sites in distant parts of the world and by producing more and more products abroad. However, this continued growth of international activities is no longer reflected in a growing contribution of the firm to highly skilled migration. On the contrary, there are two reasons why the firm's contribution can even decrease temporarily once an international network of establishments has been built up: first, the enterprise's need to transfer its assets from the headquarters to the subsidiaries diminishes over time with the growing activities and experience of the latter; second, the historically ethnocentric organisational structure of the firm still impedes lateral know-how transfers from the subsidiaries to the headquarters and between the subsidiaries in spite of their growing attractiveness.

□ However, over time the firm's orientation will

<sup>6</sup> However, from a wider perspective the employees not only react to the offers of their employers. Since the formers' readiness to accept foreign assignments hinges on the location, their preferences also exert an important influence on the locational choices of their employers, and hence on their firms' international network of subsidiaries.

<sup>7</sup> The terms "ethnocentric" and "geocentric" have been coined by H. V. Perlmutter: The Tortuous Evolution of the Multinational Corporation, in: Columbia Journal of World Business, Vol. 4 (1969), No. 1, pp. 9-18.

<sup>6</sup> According to J. Salt, J. Mervin and S. Shortland: The Cost of International Relocation, in: Relocation News, 1993, No. 26, pp. 4-7, the net overseas costs for a British employer sending one of his employees abroad range from £ 132000 to £ 306100 depending on the working age and destination of the latter.

become more geocentric as the importance of the subsidiaries grows. This change is marked by the beginning transfer abroad of the enterprise's central activities such as R&D. As soon as the geocentric orientation of the enterprise gives rise to a geocentric organisational structure, the fourth phase of the firm's contribution to highly skilled migration commences. During this last phase the firm approaches transnationality and its contribution to highly skilled migration increases again since its now geocentric organisational structure allows lateral assignments of its employees in order to allocate its own skills optimally in accordance with the markets. At the same time the pattern of the assignments also changes: besides the earlier flows from the headquarters to the branches there will be growing flows in the opposite direction and between the subsidiaries. Furthermore, these flows will no longer consist only of managers but will also comprise technical experts of all kinds.

#### Macroeconomic Application

One of the most important results of this dynamic microeconomic approach consists in the fact that a firm's contribution to highly skilled migration does not continually grow throughout its internationalisation

process. On the macroeconomic scale this implies that the level of highly skilled migration within an economic area does not necessarily always increase as firms established in it internationalise. Whether highly skilled migration really rises depends, rather, on the distribution of the phases in which the firms engaged in an internationalisation process find themselves. If a relatively large number of these enterprises are in their consolidation phase, the firms' contribution as a whole to highly skilled migration might stop growing or even decrease temporarily.

The application of this fact to the EC shows that the local rise of highly skilled migration since the early 1980s is not necessarily linked to the Europeanisation of production in Europe. To establish this link it is necessary to analyse how the distribution of the phases of international enterprises in Europe has changed since then and which concrete form their internationalisation steps have taken. In this regard the causes of the Europeanisation of production in Europe have to be paid attention. Accordingly technological advances, the arrival of non-European companies on European markets and particularly the prospect of the Single European Market have constituted the main factors driving the Euro-

Guido Perau

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peanisation process during the 1980s. All three factors have primarily influenced large enterprises, as the latter react most quickly to macroeconomic changes. This means the new economic environment has clearly favoured the continued Europeanisation of enterprises already present in several European countries. To a lesser extent especially the prospects of the Single European Market have also induced previously national enterprises to take up international activities. However, according to the above phases scheme the first internationalisation efforts of these young firms as well as the continued internationalisation activities of the already well established international enterprises have gone along with rising contributions to highly skilled migration in Europe. This means that on the macroeconomic level the Europeanisation of production has exerted an undeniably positive impact on the level of highly skilled migration in Europe.

The fact that mainly well established international enterprises increased their European presence during the 1980s is also confirmed by the high percentage of take-overs in intra-European FDI in the second half of the 1980s. Take-overs generally necessitate a huge firm size in order to be successfully carried out, a requirement often accompanied by well established international activities. At the same time the predominance of take-overs also bore another consequence for highly skilled migration in Europe: when compared to an organic growth strategy of opening up new establishments abroad, internationalisation via take-overs leads to additional migratory movements – at least in the short run. In particular, a take-over creates an instantaneous need to harmonise the ranges of products, the cultures<sup>9</sup> and the organisational structure of both firms which can only be met by rapid and major foreign assignments of both technical and managerial experts.

Summing up, the present section offers a theoretical explanation of how the growing internationalisation of the enterprises in Europe and the rising highly skilled migration in Europe have been related to

each other since the early 1980s: first, the decline in transaction costs for international activities has enabled firms to Europeanise their “strategy and structure”.<sup>9</sup> Second, this Europeanisation of production has led to a rise in intra-firm assignments and thereby to the growth of highly skilled migration within Europe.

### Future Trends

In the present paper the connections between the globalisation processes of the world-wide goods and capital markets and of the market for highly skilled labour have been explored. In particular we illustrated that international enterprises constitute a channel for highly skilled migration of growing importance in Europe.<sup>10</sup> In future additional technological advances will foster the internationalisation of enterprises and will hence indirectly support further intra-firm migration of highly skilled workers. On the other hand the current decline in communication and transport costs handicaps foreign assignments in comparison with other means of transferring know-how such as business travel or telecommunication. As a consequence foreign assignments will principally become shorter and acquire project character in the future. Additionally, highly skilled employees will increasingly execute routine tasks world-wide via the “cyberspace” or within the “virtual company”, i.e. even without leaving their home town.

At the same time there is a new trend emerging for international enterprises: the establishment of network-like organisational structures – within the firm as well as with their market partners. This trend is illustrated by the growing importance of inter-firm collusion e.g. in the form of joint ventures or strategic alliances – the “star alliance” of five national air lines being a very good recent example. However, since cooperations like these rely on the know-how of all the partners involved, foreign assignments will in the future also start to cross the classical boundaries of the firm. To summarise, one can hence expect a change towards a more diverse pattern of foreign assignments by international enterprises. As a consequence globalisation will pass from goods markets via capital markets (i.e. foreign direct investments) to a world-wide inter-firm and intra-firm exchange of highly skilled workers. Some of their performances will be shared, others will be heavily competed. Most of them will be used at specific locations. More and more of them, however, will be supplied location-less and without personal linkages between provider and user of highly skilled activities.

<sup>9</sup> The relevance of cultural differences between organisations and countries is stressed by G. Hofstede: *Cultures and Organizations: Software of the Mind; Intercultural Cooperation and its Importance for Survival*, Harper Collins, London 1994.

<sup>9</sup> A. D. Chandler: *Strategy and Structure – Chapters in the History of the Industrial Enterprise*, MIT-Press, Cambridge, Mass., London 1962.

<sup>10</sup> Such a “channels approach” to highly skilled migration was first proposed by A. M. Findlay and L. Garrick: *Scottish Emigration in the 1980s: A Migration Channels Approach to the Study of Skilled International Migration*, in: *Institute of British Geographers: Transactions*, Vol. 15 (1990), pp. 177-193.