

Matching needs do matter - How US-MNCs in Switzerland and Germany utilise local employment relations

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Abstract

Using original data on over 60 US-subsubsidiaries located in Germany and Switzerland, we examine (a) in how far the subsidiaries in the two countries display characteristics of a strategic fit with their respective host-country location – whereby our concept of fit is based on the varieties of capitalism approach focusing on employment relations. In spite of the apparent similarities between the two host-countries under consideration we find evidence for a strategic fit between subsidiary characteristics and host-location with US-subsubsidiaries in Germany being characterised by less price determination and ICT spending. Subsequently we (b) empirically determine the individual host-country fit of each subsidiary based on our analysis in (a) and test whether subsidiaries *within* the same country location differ in using local training & skill practices and if this difference can be attributed to the subsidiary's host-country fit. We find that, in Germany, the extent to which a subsidiary engages in continuing vocational education & training and the extent to which training on the job is important to vary with its host-country fit, while in Switzerland we find no relation between host-country fit and the use of training & skill practices.

1. Introduction

Strategically utilising comparative advantages that different country locations offer has become more and more important for multinational companies, also in terms of employment relations. Among others, the varieties of capitalism approach (Hall and Soskice 2001) highlights the comparative advantages different country locations and their institutional settings might offer for specific industries and the incumbent firms. While the varieties of capitalism approach and its many implications have received a lot of attention in the literature (e.g. Hancke´ 2001; Harcourt and Wood 2007; Jackson and Deeg 2006; Parry *et al.* 2008; Schneider *et al.* 2010; Thelen 2009; Trampusch and Eichenberger 2011; Vitols 2001b), applications concerning multinational enterprises and their strategic use of comparative location advantages are scarce (for a notable exception, see, however, Griffith and Macartney 2008).

In this article, we aim to fill this gap and widen the scope by (1) analysing whether multinational companies in fact utilise the comparative advantages different institutional settings offer and (2) highlighting the role a subsidiary's resulting host-country fit plays when it comes to the adoption of 'local' HR practices. By focusing on employment relations and comparing two rather similar, but – as we will argue – still different country locations, Germany and Switzerland, in step (1) we provide a rather strong test of the varieties of capitalism approach. In step (2) we contribute to the literature on host-country-effects (Harzing and Pudelko 2007; Rosenzweig and Nohria 1994; Schmitt and Sadowski 2003) by analysing whether the extent to which a multinational subsidiary utilises local human resource practices is related to its host-country fit.

We start by comparing the two country locations under consideration with respect to their employment relations systems. We find Germany and Switzerland to form an interesting contrast regarding employment relations with both similarities (e.g. dual apprenticeship system) and differences (e.g. labour market regulation). As there is considerable US-investment in both Germany and Switzerland, we ask – referring to the varieties of capitalism approach and Pull (2008) – whether each of the two offers certain comparative advantages in terms of

employment relations that different US-investors, depending on their different needs, can gain from each of these country locations.

From this we deduct our first hypothesis concerning the relation between a set of subsidiary characteristics and a subsidiary's likelihood to be located in either Germany or Switzerland. In spite of the apparent similarity between the two country locations, we find US-subsidiaries in Germany to be characterised by significantly more frequent core business changes, less of a price orientation and less ICT spending than their counterparts in Switzerland. As the observed differences between US-subsidiaries in Germany and Switzerland are mostly compatible with our theoretical analysis, the support for the varieties of capitalism approach gained from our analysis is quite impressive. This is further strengthened (i) by the fact that we provide a rather strong test of the varieties of capitalism approach by focusing on two very similar host-countries and only regard investors from one home-country (the US) and (ii) by the fact that our data base is rather small (a little more than 30 subsidiaries in each country location).

In a next step we study whether the degree to which a subsidiary located in the 'right' country (extent of host-country fit, empirically measured by the derived location model) affects the use of 'local' training & skill practices. The idea is: If a US-subsidiary located in either Germany or Switzerland would be able to gain comparative advantages from the host-country location in terms of employment relations, host-country employment relations practices should be utilised more than if that was not the case. For example regarding training & skill practices, which can provide more or less of a competitive advantage depending on different company needs, we disentangle the country location similarities in terms of education and the country location differences regarding labour market flexibility. We find that in Germany, the extent to which a subsidiary engages in continuing vocational education & training and the extent to which training on the job is important to vary with its host-country fit, while in Switzerland – as predicted – we do not find a relation between host-country fit and the use of training & skill practices.

The article proceeds as follows: In Section 2, we first present our theoretical analysis and derive our hypotheses. In Section 3, we describe our dataset, derived from an original mail-survey of US-subsidiaries in Germany and Switzerland. In Section 4, we present and discuss our results. The article ends with conclusions.

2. Differentiating subsidiaries on the country level and within country locations

Choice of home- and host-country locations: US-subsidiaries in Germany and Switzerland

In analysing our research question on whether multinationals systematically utilise the comparative location advantages different employment relations settings offer by (1) choosing an appropriate country location and (2) by adopting 'local' HR practices, we focus (a) on US-subsidiaries and (b) on the two country locations Germany and Switzerland. We choose US-subsidiaries because of US-multinationals being of central importance as investors worldwide. By concentrating on the two host-country locations Germany and Switzerland, in terms of the varieties of capitalism approach (Hall and Soskice 2001) we choose two rather similar but still different country locations. We do so because – in comparison to the US – Germany and Switzerland represent an ideal test scenario concerning the different comparative advantages of different employment relations institutions: Both countries are quite similar with respect to their vocational education and training systems while they differ a lot with respect to the labour market flexibilities they offer. Further, in light of the many

similarities between the two countries, we provide a rather strong test of the explanatory power of the varieties of capitalism approach.

When assessing the two chosen country locations from the perspective of the varieties of capitalism approach, Germany is a typical example for a coordinated market economy (Hall and Soskice, 2001; 1-68) whereas Switzerland has more liberal tendencies (e.g. Hall and Gingerich, 2004; 16; Schneider *et al.*, 2010; 256). In terms of the different market economy spheres in which the firm operates such as industrial relations, training and education (combined what we refer to as employment relations), corporate governance and inter-company relations (Hall and Soskice, 2001; 1-68), Germany can typically be described as the following: Having industrial relations being governed by strong employer-employee coordination (Hall and Soskice, 2001; 21-27), a dual education and training system producing firm and industry specific occupational skills (Estevez-Abe *et al.*, 2001; 170), corporate governance with comparatively little shareholder orientation and generally a comparatively strong coordination between companies (Hall and Soskice, 2001; 21-27). Switzerland has a much more flexible labour market (Afonso and Mach, 2010; 1-28), however in practice some employer-employee coordination should prevail as well (Oesch, 2007; 337-368). In Switzerland there is also a similar education and training system as in Germany, with less of a focus on University and general skill education as present in many liberal countries, but providing rather industry specific occupational skills (Estevez-Abe *et al.*, 2001; 170). Furthermore, there is more of a shareholder orientation (Afonso and Mach, 2010; 6) and yet some coordination across organised employer and employee bodies – e.g. setting training standards together (Oesch, 2007; 353).

MNC location choices and the role of employment relations

Concerning our first research question on whether multinationals systematically utilise the comparative location advantages different employment relations settings offer by choosing an appropriate country location, this has hardly been analysed as yet. Rather, existing literature on related fields supports our view that there is a research gap that needs addressing. For example, there does not seem to be a clear trend regarding a number of employment relations factors and whether they rather attract or deter foreign direct investment. Regarding co-determination there are both negative and positive relationships with foreign direct investment found (e.g. Bognanno *et al.* 2005; Cooke and Noble 1998; Traxler and Woitech 2000). This also applies to other factors, for example union density or centralised collective bargaining (see Pull, 2008; 315 for a comprehensive overview). A more positive trend is observable regarding education and skill variables, another central part of employment relations systems and of importance for our analysis. Education is found to have a significant positive effect in terms of attracting FDI, for example, Cooke (2001; 708) - regarding the education years difference between home- and host-countries - finds a positively significant effect on FDI ratios (Cooke 2001; 710), as well as Cooke (1997; 3). And the studies do not distinguish between investors, e.g. of the same country of origin, in a systematic and detailed fashion. However, we can refer to Pull (2008; 314-329) for a systematic differentiation of MNC subsidiaries, thereby providing us with first support that there are systematic differences between subsidiaries that are linked to employment relations complementarities.

Furthermore, the results of the literature on business system complementarities lend support to our idea of investors strategically using comparative location advantages. E.g., Schneider *et al.* (2010; 246-266) find that when there is a high proportion of university graduates and a substantial stock market, there is considerable export performance in high-technology (Schneider *et al.*, 2010; 246). Bassanini and Ernst (2002; 391-426) find countries

with coordinated industrial relations with rigid employment protection laws to concentrate on industries which are characterised by high specificity and cumulateness (Bassanini and Ernst, 2002; 398). Also Harcourt and Wood identify employment protection aiding firm specific skills (Harcourt and Wood, 2007; 151). Griffith and Macartney (2008), regarding *within* multinational company data in 12 OECD countries, ‘find empirical evidence that multinational enterprises locate more innovative activity in countries with high EPL, however they locate technologically advanced innovation in subsidiaries located in countries with low EPL’ (Griffith and Macartney, 2008; 1).

In what follows we build on the preceding literature and identify characteristics that ideally a subsidiary in Germany or Switzerland should have in order to – in terms of the varieties of capitalism approach – gain competitive advantage from its chosen host-country with respect to its employment relations system.

Regarding employment relations complementarities, US-subidiaries in Germany are ideally predicted to, in contrast to Switzerland, have a tendency to experience little frequent core business changes in the main business of the subsidiary, be relatively little dependent on price and have relatively little information and communication technology intensity. This is because – following the general varieties of capitalism predictions as outlined above and applying it to subsidiaries – the German market economy should rather foster a coordinated long-term orientation (Hall and Soskice 2001) without frequent core changes, and rather less price pressures due to less of a shareholder orientation (Vitols, 2001b; 339), as well as less of a service-orientation (Hall and Soskice, 2001; 30 for service orientation complementarities in liberal market economies) which should coincide with a comparatively lower information and communication technology (ICT) focus (e.g. Wöfl, 2005; 38 for the link between service and ICT use¹).

While there is reason to believe that US-subidiaries in Germany and Switzerland will differ in terms of the frequency of core business changes, long-term orientation, price orientation and ICT intensity, in other aspects (which link back to complementarities in employment relations regarding training and skills) we expect no differences between subsidiaries at the two country locations. In particular, we do not suspect that there is a significant difference between US-subidiaries and their characteristics located in Germany and Switzerland regarding how specific the assets utilised for the subsidiary main business are, or in how far technology intensive the subsidiary main business is. This is due to the market economy similarities of Germany and Switzerland in terms of fostering rather specific skills (e.g. Estevez-Abe *et al.*, 2001; 170) which should go hand in hand with having rather less general assets in a business overall (Hall and Soskice, 2001; 17 for more specific assets in coordinated market economies). It should also coincide with employing rather medium technology (if at all) (e.g. Hall and Soskice, 2001; 21-27 for technology specialisations in different market economies). Concluding, we formulate the following hypothesis:

H1: Subsidiary characteristics & location choice

US-subidiaries in Germany are, *ceteris paribus*, characterised by (a) a less frequent occurrence of core changes, (b) a lower price orientation, (c) a lower ICT intensity and (d) a more pronounced long-term orientation than their counterparts in Switzerland. Concerning (e) type of assets and (f) technology intensity, there are no differences between US-subidiaries in Germany and Switzerland.

Host-country fit and the use of local training & skill practices

With respect to our second research question, we analyse whether the extent to which a subsidiary ‘fits’ in its location affects the utilisation of ‘local’ HR practices. Our analysis is motivated by the literature on host- vs. home-country effects (Harzing and Pudelko 2007; Rosenzweig and Nohria 1994; Schmitt and Sadowski 2003). What is neglected in this literature so far is that the extent to which a host-country effect is observable should – in accordance with the varieties of capitalism approach – in fact depend on whether the specific country location was chosen according to its comparative advantages with respect to the employment relations system: If a multinational strategically chooses a certain country location because of the specific comparative advantages its employment relations system offers, we – and this is the basic idea – expect it to in a next step then also *exploit* these comparative advantages by making use of the corresponding local HR practices.

Concerning the specific HR practices under consideration, we focus on very locally embedded ones, i.e. training & skill practices. We do so because human capital (despite increased movement of labour) still overall differs by country locations as it is determined by distinct education and skill environments in connection with different local employment regulations. Also, a skilled workforce is of central importance for economies (e.g. Schwab, 2011; 5) and therefore companies, hence US-investors should especially be interested in utilising local skill specialisation advantages for which partly in the USA no equivalent exists, such as for the dual apprenticeship system, if they match their host-country fit.

To obtain a more detailed view of training & skill employment relations practices, we refer to Marsden (1999) in addition to the varieties of capitalism approach (Hall and Soskice 2001). Companies’ employment systems in Germany (Marsden, 1999; 188) can generally be classified as the function centred training approach. Due to Switzerland’s general similarity to Germany in terms of education and skills, we regard it as belonging to the same category. Here, companies should orientate on skills linked to occupational qualifications when organising work. This is opposed to companies in the USA which should employ the task centred production approach, where job organising is orientated on technology complementarities and specifying tasks in detail (Marsden, 1999; 31-60). Hence, employment systems – in combination with labour market flexibilities where Switzerland is rather liberal in terms of regulations, as are the USA (OECD (eds.) 2010, 2008 EPL) – should have implications for companies’ training & skill practices.

With respect to training & skill practices, we focus on three different measures: The extent to which the subsidiary invests in (a) apprenticeship training, (b) continuing vocational education & training and (c) the importance of on the job training. Considering the chosen measures, an interesting contrast between the subsidiaries’ home-country, the USA, and the two host-countries, Germany and Switzerland, gets apparent: In the US, there are generally little skill transferability & little medium occupational skills, relatively narrow job roles and prevalence of on the job training (Marsden, 1999; 121, 130 and 141), while the situation is different in Germany and Switzerland. Further, gradual differences between the host-countries in terms of education and labour market flexibility can be disentangled.

Concerning US-subidiaries in *Germany*, the more of a fit between a US-subidiary and the country location Germany, the more apprentices should be trained because of the firm and industry specific occupational qualification orientation in Germany (Estevez-Abe *et al.*, 2001; 170) and resulting complementarities. Furthermore, the more host-country fit the subsidiary has, the less should the subsidiary offer its employees continuing vocational education & training. Even though generally firms with a focus on developing their employees may both engage in apprenticeship training and continuing vocational education & training in Germany,

for US-subsidaries we predict otherwise due to their home-country predisposition of rather training staff on the job as needed and not training apprentices. And lastly, the more of a host-country fit, the less important should skills acquired on the job be. This is because not only skills obtained purely on the job should make up the most important skills to operate a job in an environment orientated on specific occupational qualifications acquired mainly by apprenticeships (restricted use of on the job training in Germany, see Marsden, 1999; 141) and with little job mobility. Concluding we formulate the following hypothesis:

H2: Host-country fit and training & skill practices in Germany

- (a) *apprenticeship training*: The better the host-country fit in Germany, the more apprentices will be trained.
- (b) *continuing vocational education & training*: The better the host-country fit in Germany, the less continuing vocational education & training will be offered.
- (c) *training on the job*: The better the host-country fit in Germany, the less important is training on the job.

For the US-subsidaries in *Switzerland*, due to Switzerland's general similarity to Germany in terms of occupational job qualifications and employment system, the same is predicted regarding training apprentices. This does not apply to the amount of continuing vocational education & training offered by the subsidiaries and the importance of training on the job, both areas which predictably rather resemble home-country US-practices due to similarities in regulatory flexibilities and outcomes (e.g. both having low median job tenure, Estevez-Abe *et al.*, 2001; 170). In connection with the flexible labour market in Switzerland (Afonso and Mach, 2010; 1-28), regarding continuing vocational education & training offered we predict no difference according to subsidiary host-country fit: In Switzerland staff will move between companies relatively frequently so that subsidiaries will need to offer training for newcomers accordingly as some (occupational) skill complementarities will be lost when moving, especially if outside one's industry. Also regarding the importance of skills acquired on the job, we do not predict a significant difference according to subsidiary host-country fit. This is due to the same reason as outlined before. There is generally a high mobility of staff (Henneberger and Sousa-Posa, 2000; 221) between companies. This does not allow to necessarily keep all specific occupational skill advantages acquired in a job which should in turn heighten the importance of skills acquired on the job. Concluding, the following hypothesis is formulated:

H3: Host-country fit and training & skill practices in Switzerland

- (a) *apprenticeship training*: The better the host-country fit in Switzerland, the more apprentices will be trained.
- (b) *continuing vocational education & training*: In Switzerland, the host-country fit will not affect the amount of continuing vocational education & training offered.
- (c) *training on the job*: In Switzerland, the host-country fit will not affect the importance of on the job training.

3. Data and operationalisation

Data

In lack of an existing appropriate data set, we investigate our research questions with the help of original subsidiary data we acquired in 2010/2011. For our survey, we contacted a random selection of US-subsidiaries (subsidiaries where US companies hold more than 50 percent, see OECD, 2003) and gathered over 60 replies in Germany and Switzerland. Subsidiary contact information was obtained from the Amadeus database (Bureau van Dijk 2009). Five hundred subsidiaries were randomly selected to be contacted in Germany and Switzerland (the base population) with a postal survey which was addressed to the subsidiary management but could be passed on as fit was seen. Both strategy and specific employment relations questions were asked, employing both free text factual answers and Likert-Scale questions. Although the accompanying cover letter explained the purpose of the conducted study briefly, it did not elaborate on specific expectations in order not to unduly influence the respondent. Hence because of the indirect design the non-response bias should be somewhat counteracted in this respect.

Various measures were taken in order to increase response rates of the survey: Checking the survey questionnaire in a pre-test (Sherblom *et al.*, 1993; 60 for the importance of wording), using a short questionnaire (Edwards *et al.*, 2002; 1, shorter questionnaires should increase responses) and having individualised details on the cover letter (sent in German to Germany, and in English to Switzerland in order not to discriminate for one of its native languages) such as personal signatures (which should too increase response rates, e.g. Dillman *et al.*, 2007; 643). We abstained from offering any other incentives besides an executive research finding summary because of the target population (e.g. Cychota and Harrison, 2002; 151 report offering incentives not being effective regarding top-management). The net response rate for the US-subsidiaries in Germany and Switzerland was seven percent (considering undeliverable questionnaires and companies having gone out of business). This puts the response rate within the spectrum of comparable studies, even though on the lower end. As a comparison, in his survey regarding foreign subsidiaries in Germany, Vitols (2001a; 1) obtained a response rate of ten percent. The Cranet survey (Cranet (eds.) 2011) has about 12-25 percent of replies – depending on the country. Lastly, Shoham (1996; 59), with a five percent response rate, reports it as low but in the range of previously administered studies.

Concerning the industry distribution of our response population, in Germany the largest group of subsidiaries belongs to ‘manufacturing’ (34 percent) followed by ‘management of companies and enterprises’ and ‘professional, scientific and technical services’ (each 13 percent) whereas in Switzerland the largest group of subsidiaries stems from ‘wholesale trade’ (39 percent) followed by ‘manufacturing’ (30 percent) and ‘professional, scientific and technical services’ (12 percent). While part of these differences in the industry distribution simply mirror the respective differences in the base population (with, e.g., wholesale trade being far more prominent among US-subsidiaries in Switzerland than in Germany: 34 as opposed to 19 percent), some industries are in fact over-represented or under-represented in our response population as compared to the base population. For the case of manufacturing, e.g., there is a significant over-representation to be observed, which, however, is quasi ‘parallel’ in Germany and Switzerland (percentage shares in base population: 18 and 19 percent, percentage shares in response population: 34 and 30 percent).

Variables

Table 1 summarises how the relevant variables were measured in the survey and displays their means and standard deviations, separate for the two country locations.

Panel A contains the variables that were used to test H1 and to assess a subsidiary's host-country fit. As can be seen from the descriptives, US-subidiaries in Germany and Switzerland, on average, are comparable with respect to some characteristics (price orientation, technology intensity), while they display differences in others (core business changes, ICT intensity, long-term orientation, type of assets). In a statistical sense significantly different from one another, however, are only the figures on the frequency of core business changes: While in Switzerland about 30 percent of the participating US-subidiaries experience core business changes only every 7 years or less frequently, the corresponding figure for Germany is only about 10 percent. In other words, core business changes are – other than expected – relatively more frequent in the German as compared to Swiss US-subidiaries. It remains to be seen, however, whether this effect is also visible in the multivariate analysis.

The variables in Panel B describe in how far a subsidiary utilises the training & skill practices under question. They were used to test H2 and H3. Interestingly, on average the US-subidiaries in Germany have a higher apprenticeship staff share compared to the ones in Switzerland (while reported average figures for the whole economy are rather similar in the two countries, i.e. somewhere around 5.5 percent, Bundesamt für Statistik, 2008; 29 and Jacobebbinghaus *et al.*, 2008; 13). However, a conducted t-test indicates that the share of apprenticeship staff does not significantly differ between the US-subidiaries in Germany and Switzerland. The same applies for the importance of training on the job (H2/3c). However subsidiaries in the two countries vary with respect to continuing vocational education & training: There was significantly more training provided in the subsidiaries in Germany in 2009 compared to the ones in Switzerland (H2/3b).

Panel C contains a set of controls used for robustness checks with respect to H1 and H2. As common practice when analysing employment relations practices, it is advisable to control for some additional factors. One standard control and also central to consider here is the size of the subsidiary (e.g. Gooderham *et al.*, 2006; 1502 for this standard control measure) measured by its headcount,² since the size of a subsidiary might well affect both, subsidiary characteristics (H1) and training & skill arrangements (H2). Also another aspect to control for with respect to H2 and H3 is the way and when the subsidiary became a US-subidiary, either by a start-up or by a merger/acquisition of a previously existing local company. This is because training & skill practices in an already established company may be harder to change, especially the longer the organization has existed. Furthermore, with respect to H2 and H3 we control for whether there is a central HR company strategy followed, thus controlling for a possible home-country-related effect (e.g. see Harzing and Pudelko 2007, or Pulignano 2006). And lastly, especially for the subsidiaries in Germany, also a works council might have an effect on the adoption of local training & skill practices, therefore we control for it also regarding H2 and H3.

TABLE 1: Variables and descriptives

Construct	Questionnaire item	Mean (Std.)	
		Germany	Switzerland
<i>Panel A: Subsidiary characteristics determining host-country fit</i>			
core business changes (H1a)	How often does the subsidiary business encounter core business changes? choice of: every seven years and less often <input type="checkbox"/> yes (1 = less frequent) <input type="checkbox"/> no (0 = more frequent)	0.1 (0.3)	0.3 (0.5)
price orientation (H1b)	The success of our main business driving products/services is price determined. (5.P. Likert-Scale)	3.2 (0.9)	3.2 (1.1)
ICT intensity (H1c)	What share of the subsidiary budget is spent on information and communication technology? approx. _____ %	6.1 (7.7)	8.3 (9.0)
long-term orientation (H1d)	What share of the premises and equipment is subsidiary owned? approx. _____ %	48.4 (40.6)	53.1 (44.2)
type of assets (H1e)	Assets and components used could easily be switched to another use (e.g. new products/services). (5.P. Likert-Scale)	2.8 (1.2)	2.4 (1.1)
technology intensity (H1f)	Our main business driving products/services belong to high-tech. (5.P. Likert-Scale)	3.4 (1.3)	3.4 (1.4)
<i>Panel B: Training & skill practices</i>			
apprenticeship training (H2a, H3a)	What percentage of staff is currently made up of apprentices? approx. _____ %	2.7 (3.8)	1.8 (3.2)
continuing vocational education & training (H2b, H3b)	How many days of training did staff receive on average in 2009? approx. _____ days	6.4 (7.1)	3.4 (2.6)
importance of on the job training (H2c, H3c)	The most important work skills of our staff have been acquired on the job. (5.P. Likert-Scale)	3.4 (0.8)	3.5 (0.8)
<i>Panel C: Controls</i>			
central HR company strategy	An HR strategy applicable in the entire company is followed. (5.P. Likert-Scale)	3.4 (1.3)	3.7 (1.1)
existence of a works council	Is there a works council? (in CH: 'Personalkommission') <input type="checkbox"/> yes (1) <input type="checkbox"/> no (0)	0.5 (0.5)	0.2 (0.4)
staff headcount	Please let us know the current overall staff headcount: approx. _____	485 (1,263)	376 (1,072)
type of subsidiary incorporation	The subsidiary was incorporated in form of a: <input type="checkbox"/> start-up (1) <input type="checkbox"/> merger/acquisition (0)	0.5 (0.5)	0.5 (0.5)
year of subsidiary incorporation	The year of incorporation is: year: _____	1999 (9.4)	1985 (22.2)

4. Results

Differences between US-subsidiaries in Germany and Switzerland & host-country fit

Table 2 displays the results of a logit analysis with the dependent variable 'location' with '1' representing 'Germany' and '0' representing Switzerland. Explanatory variables are the sub-

sidiary characteristics highlighted in H1 and headcount as a further control. The results indicate that US-subsidiaries in the two locations are significantly different from each other with respect to a set of variables: Specifically, US-subsidiaries in Germany experience core business changes more frequently (H1a, less frequent core business changes coded as 1, and more frequent ones as 0, hence the negative relation) and spend less on ICT (H1c). As predicted, they also are less characterised by price orientation (H1b), with the respective result being just borderline to not being significant at the 10 % level ($p=0.105$). As predicted, US-subsidiaries in Germany and Switzerland do not significantly differ with respect to the type of assets used (H1e) and their technology intensity (H1f). Only with respect to the degree of long-term orientation, we do not find US-subsidiaries in Germany to be more long-term oriented than subsidiaries in Switzerland (H1d).

TABLE 2: Logit regression of location (marginal effects)

Marginal effects at mean after logit in country (D =1/CH=0)	dy/dx	standard errors	95 % confidence interval	
			from	to
core business changes (H1a)	-.4456327**	.15468	-.748792	-.142474
price orientation (H1b)	-.1616697(*)	.09971	-.357105	.033766
ICT intensity (H1c)	-.0334976*	.01522	-.063329	-.003666
long-term orientation (H1d)	-.0017022	.00208	-.005783	.002379
type of assets (H1e)	.0930341	.07594	-.055814	.241883
technology intensity (H1f)	.0058083	.06242	-.116542	.128159
headcount	.0001352	.00012	-.000094	.000364

Observations: 51
Pseudo R²: 0.2215
Log likelihood: -27.452599

*** significance at 1% level, ** significance at 5% level, * significance at 10% level.

Overall, despite the rather small sample, we detect a number of significant differences between the US-subsidiaries located in Germany and Switzerland, which are mostly compatible with location decisions being linked to comparative advantages in employment relations. This lends support to our previously outlined predictions of and deductions from the varieties of capitalism approach (Hall and Soskice 2001). As predicted, for subsidiaries in Switzerland, more ICT intensity and more of a price orientation is found. Only with respect to the frequency of core changes and a long-term orientation, our predictions do not hold: Overall the US-subsidiaries in Switzerland experience significantly less frequent core changes and are significantly more long-term orientated as per our measure of subsidiary premises and equipment ownership. In light of the rather hard test administered (Germany and Switzerland will in general be judged to be rather similar – especially from the perspective of a foreign investor), the support for the varieties of capitalism approach is still quite considerable.

US-subsidiaries' training & skill practices in view of their host-country location fit

To test H2 and H3, we first need to determine the host-country fit for each subsidiary. This we conduct via the predicted probability of each subsidiary to be located in the county location it finds itself in (Germany or Switzerland), according to the logit analysis we

employed. Each subsidiary is thereby assigned a subsidiary host-country fit score between 0 and 1, with a higher value indicating more of a fit between subsidiary and country location. For subsidiaries in Germany we find the mean host-country fit to be 0.66, for subsidiaries in Switzerland it is slightly (but not statistically significantly) lower (0.62). As a result of missing values concerning the utilised variables, the number of cases reduces to n=26 (24 for H2b) subsidiaries in Germany and n=24 (22 for H2b) subsidiaries in Switzerland.

Next, we run pair wise correlations assessing the relationship between a subsidiary's host-country fit and its training & skill practices (Table 3). Several of our hypotheses are supported by the data: In accordance with H2b, we find that the host-country fit of a subsidiary in Germany is negatively correlated with the amount of continuing vocational education & training it offers, while there is no significant correlation between the two in subsidiaries located in Switzerland – supporting H3b. Furthermore and as predicted, in Germany, we find a negative correlation between host-country fit and the importance of on the job training (H2c) while there is no link in Switzerland (H3c).

Last, but not least, concerning apprenticeship training, in both country locations we find no relation with a subsidiary's host-country fit. Apparently, the extent to which US-subidiaries actively participate in the training of apprentices is – unlike postulated in H2a and H3a – unrelated to their host-country fit.

TABLE 3: Correlations between training & skill practices and host-country fit

training & skill practice	Germany	Switzerland
apprenticeship training (H2a, H3a)	0.08	0.16
continuing vocational education & training (H2b, H3b)	-0.47*	-0.06
importance of on the job training (H2c, H3c)	-0.38*	0.02

*** significance at 1% level, ** significance at 5% level, * significance at 10% level.

As a robustness check, we run OLS regression analyses for each training & skill variable, controlling (one by one due to the sample size) for the control variables displayed in Table 1, Panel C. By and large, the results remain robust to these alterations.³

In sum, we find US-subidiary employment relations practices variation within Germany (e.g. Royle 2004 also points out enduring industrial relations differences within nations) to be related to subsidiary host-country fit: Two out of three hypotheses are supported. Only in regard to apprenticeship training there are no significant differences found according to host-country fit. Regarding the US-subidiaries in Switzerland we found no significant relation between host-country fit and training & skill practices. While this non-relation was in fact postulated for the field of continuing vocational education & training and also for the importance of on the job training, we expected host-country fit and the share of apprentices to be positively correlated.

Overall our findings indicate that distinguishing between home- and/or host-country (Edwards and Kuruvialla, 2005 for an overview of selected studies; Ferner *et al.* 2001; Harzing and Sorge 2003; Rosenzweig and Nohria 1994; Schmitt and Sadowski 2003) effects is not sufficient. Additionally host-country fit, systematically differentiating between subsidiaries' competitive advantage capabilities, even when from the same country of origin, should be taken into account. Furthermore, as indicated by our findings, if a subsidiary has a good host-country fit and host-country employment relations practices are different from

home, host-country effects should generally be found. In absence of a substantial difference between home- and host-country practices, country-fit clearly will not affect their use.

5. Conclusion

In summary, our results support the idea that we can distinguish US-subsidiaries located in Germany and Switzerland according to a set of characteristics that we can link back to employment relations complementarities, and then in turn identify a different use of host-country employment relations, according to how much comparative advantage could be utilised by the company. Regarding the use of local training & skill practices, in the case of Germany we find – as predicted – that a subsidiary’s host-country fit affects the extent to which local training & skill practices are used. In the case of Switzerland we do not find such a host-country fit effect.

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Notes

¹ ICT as being utilised for the subsidiary business is in focus here which should go along with a service comparative advantage – thereby measured in share of subsidiary budget spending; this is not to be confused with producing ICT hardware or similar products in which e.g. Germany is also strong.

² Due to already controlling for subsidiary headcount in the subsidiary fit measure as it was included in the preceding logit-analysis from which the predicted probability values are taken, it is not controlled for again in the training & skill practice variable regressions.

³ Only regarding the following measures does the result turn insignificant: When we include the control having a central HR company strategy in the OLS regression regarding continuing vocational education & training for the subsidiaries in Germany, the host-country fit result turns borderline insignificant ($p = .101$) while the control variable is insignificant. And when controlling for all sample subsidiaries having a works council, the results stay significant. When considering subsidiaries only that have the required size to establish a works council in Germany, the relation between host-country fit and continuing vocational education & training turns just borderline insignificant ($p = .102$). Since it is more likely that bigger subsidiaries have a works council, it should be noted that a size effect is captured here additionally as well.