Similar, but still different: How US-MNCs in Germany and Switzerland use host-country training and skill practices

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Abstract:

We examine in how far US-subsidiaries in Germany and Switzerland display characteristics of a strategic fit with their host-country and mostly find support for our predictions. Subsequently we determine each subsidiary’s host-country fit and test for within country differences in using local training and skill practices. We find the extent of continuing vocational education and training and to which training on the job is important to vary with host-country fit in Germany, while in Switzerland, as predicted, we find no such relation.

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1 INTRODUCTION

Strategically utilising comparative advantages that different country locations offer has become more and more important for multinational companies (MNCs), 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. While the varieties of capitalism approach and its implications have received a lot of attention in the literature (e.g., Hancké, 2001; Harcourt and Wood, 2007; Parry et al., 2008; Schneider et al., 2010; Teuber et al., 2011; Vitols, 2001b; Heyes et al., 2012), applications concerning MNCs and how these may strategically use comparative location advantages are few and far between.

In this article, we aim to fill this research gap by focusing on two research questions: First, we analyse whether in their choice of location MNCs use the comparative advantages that different institutional settings offer according to the varieties of capitalism approach in terms of employment relations. From this, we deduct a subsidiary’s specific host-country fit. Second, we then analyse the role a subsidiary’s host-country fit plays when it comes to the adoption of local employment relations practices. The idea is the following: The larger the degree to which a subsidiary is able to gain comparative advantages from its host-country location (as measured by its host-country fit), the higher the probability that it uses local employment relations practices.

By focusing on employment relations comparative location advantages and by comparing two similar, but – as we will argue – still different host-country locations (Germany and Switzerland), we provide a rather strong test of the varieties of capitalism approach in our first research question. With respect to our second research question, we contribute to the literature on host-country effects (e.g., Pudelko and Harzing, 2007; Rosenzweig and Nohria, 1994;
Schmitt and Sadowski, 2003) by (a) deriving a measure for a subsidiary’s host-country fit and by (b) analysing the relation between the uptake of local Human Resource (HR) practices and a subsidiary’s host-country fit – separately for the two countries under consideration and controlling for a set of potentially important variables.

The article proceeds as follows: In section 2, we start by comparing the two country locations under consideration (Germany and Switzerland) 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). Next, we present the literature and our hypotheses regarding our two research questions. In section 3, we describe the data. In section 4, we present and discuss our results. The article ends with conclusions in section 5.

2 Theory, Literature and Hypotheses

2.1 The differently coordinated market economies Germany and Switzerland

In analysing our research questions 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’ employment relations practices, we focus on US-subsidiaries and on the two country locations Germany and Switzerland. We choose US-subsidiaries because US-multinationals are of central importance as investors worldwide (e.g. for the UK, see Clark and Almond, 2004). 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) whereas Switzerland – although originally considered a coordinated market economy (e.g. see Hall and Soskice, 2001; Schneider and Soskice, 2009) – has more liberal tendencies (Hall and Gingerich, 2009: 458; Schneider et al., 2010). In terms of the different market economy spheres in which the firm operates such as industrial relations, education and training (combined what we refer to as employment relations), corporate governance and inter-company relations (Hall and Soskice, 2001), the two countries can typically be described as the following:

In Germany\(^1\), industrial relations are governed by comparatively strong employer-employee coordination and high employment protection, thus less flexible in this respect (Hall and Soskice, 2001; OECD (eds), 2010, 2012). A further prominent characteristic of German employment relations is the dual vocational education and training system producing firm and industry specific occupational skills (Estevez-Abe et al., 2001: 170). Furthermore, corporate governance is typically stakeholder orientated (e.g. see Almond et al., 2003 for details) and there is a comparatively strong coordination between companies (Hall and Soskice, 2001).

Switzerland has a much more flexible labour market (Afonso and Mach, 2011) than Germany, however in practice some employer-employee coordination prevails (Oesch, 2007). Concerning vocational education and training, there is also a dual apprenticeship system similar to Germany, providing rather industry specific occupational skills (Estevez-Abe et al.,

\(^1\) Despite a certain decline of the ‘German model’ of industrial relations (e.g. Grahl and Teague, 2004; Casey et al., 2012), typical characteristics as described here so far generally remain and in comparison to other countries, employment relations in Germany can be regarded as rather coordinated.
As compared to Germany, there is, however, more of a shareholder orientation (Afonso and Mach, 2011) and yet some coordination across organised employer and employee bodies – e.g. setting training standards together (Oesch, 2007: 353).

As a comparison in terms of employment relations, these are in the USA generally determined by flexible labour market regulations, thereby more similar to Switzerland than to Germany in this respect. Furthermore, there is more of a focus on university and general skill education in the USA, and the vocational education and training system is weak (Estevez-Abe et al., 2001), different to both, Germany and Switzerland.

To outline the three countries’ employment relations similarities and differences in further detail, we give a few key examples. Individual permanent worker employment protection in Switzerland is 1.19 versus 0.56 in the USA and 2.85 in Germany as measured by the OECD (see OECD (eds), 2010 for 2008 - the higher the value the more strict). Average job tenure of dependent employees in Switzerland is among the lowest in Europe according to an overview by the OECD, 8.8 years versus an average of 11.2 in Germany (see OCED (eds), 2012 for 2011) and a median of 4.6 in the USA (Bureau of Labour Statistics United States Department of Labour, 2012). Collective bargaining coverage in Switzerland is less than in Germany but more than in the USA, 48 versus 63 percent in Germany and 13 percent in the USA (as reported in Venn, 2009 for 2007/2006 data). Employee representation rights at the workplace are however rather limited in Switzerland, as opposed to Germany (Etui (eds), 2012 a/b). Furthermore, two thirds of school leavers in Switzerland (aged 15-19) enter a dual apprenticeship and in Germany almost as many young people enter apprenticeships (Steedman, 2009), in contrast to the USA where such vocational programs are currently not of importance (Bosch and Charest, 2008).
Thereby, overall, the three countries display strongest similarities and differences in terms of the vocational education and training system on the one hand and in terms of labour market flexibility on the other as displayed in the overview in figure 1.

[insert figure 1]

2.2 MNC location choices and the role of employment relations

2.2.1 Literature

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. E.g., 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, e.g. 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, e.g., 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) 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) find countries with coordinated industrial relations with rigid employment protection laws to concentrate on industries which are characterised by high specificity and cumulativeness. Also Harcourt and Wood identify employment protection to aid firm specific skills (Harcourt and Wood, 2007: 151). Griffith and Macartney (2010), 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 more technologically advanced innovation in countries with low EPL’ (employment protection legislation) (Griffith and Macartney, 2010: 1).

2.2.2 Hypothesis

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 gain competitive advantage from its chosen host-country with respect to its employment relations system. US-subsidiaries in Germany are ideally predicted to, in contrast to Switzerland, have a tendency to infrequently experience core business changes in the main business of the subsidiary, be relatively little dependent on price and have relatively little ICT intensity. This is because 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). Also 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 ICT focus (e.g. Wölfl, 2005: 38 for the link between service and ICT use\(^2\)) should prevail.

While there is reason to believe that US-subsidaries 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 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-subsidaries 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 (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 high-technology (if at all) (see Hall and Soskice, 2001 for technology specialisations in different market economies). Concluding, we formulate the following hypothesis:

**H1: Strategic Fit: Subsidiary characteristics and location choice**

US-subsidaries 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-subsidaries in Germany and Switzerland.

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\(^2\) 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.
2.3 Host-country fit and the use of local training and skill practices

2.3.1 Literature

The literature on host- vs. home-country effects (e.g. Almond et al., 2005; Almond, 2011; Pudelko and Harzing, 2007; Rosenzweig and Nohria, 1994; Schmitt and Sadowski, 2003) considers various explanatory factors. Prominently, factors such as the distance between home- and host-country in terms of the business system context have been identified to play a role in the localisation of practices (see Parry et al. 2008 for North American MNCs). Also, overall a trend of HR practices rather being transferred from liberal to coordinated market economies has been identified by Iseke and Schneider (2012) who analyse existing empirical studies in the field. Iseke and Schneider (2012) also find that generally industrial relations practices are transferred less than HR practices, and that there is somewhat of a dominance of US-related practices. Furthermore, regarding individual MNC subsidiary characteristics, e.g. the type of subsidiary incorporation and the size of subsidiaries have been analysed (e.g. see Rosenzweig and Nohria, 1994; Schmitt and Sadowski, 2003).

What is neglected in the literature so far is that the extent to which a host-country effect is observable should in fact depend on whether the specific country location offers the subsidiary comparative advantages with respect to the employment relations system: If a multinational can profit from specific comparative advantages that the host-country employment relations system offers, we expect it to in a next step then also exploit these comparative advantages by making use of the corresponding local employment relations practices.

Concerning the specific local employment relations under consideration (training & skill practices, see below) Marsden’s approach of employment systems represents a further important point of reference. According to Marsden (1999), companies’ employment systems in Germany 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. These dominant occupational qualifications are acquired via dual apprenticeships in both countries. Hereby learning takes place both at school and at work (see e.g. Teuber et al., 2011). And hence, jobs organised along such qualification lines are expected to prevail to capitalize on staff’s broad occupational skills. This is opposed to companies in the USA which employ a rather task centred production approach, where job organisation is orientated on technology complementarities and specifying tasks in detail (Marsden, 1999: 31-60). Here, staff with a typically rather general education gained outside the workplace (Bosch and Charest, 2008) are expected to be trained for specific tasks once in a job.

2.3.2 Hypotheses

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’ employment relations practices. Concerning the specific employment relations practices under consideration, to find out if our proposition regarding host-country fit and a respective use of local practices applies, we focus on training and skill practices as these are locally embedded. A skilled workforce is of central importance for economies (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 these match the US-subsidiaries’ host-country fit. Employment systems – in combination with labour market flexibilities where Switzerland is rather liberal, as are the USA and not so Germany – should have implications for companies’ training and skill practices. We focus on three central measures: The extent to which the subsidiary invests in (a) apprenticeship training, (b) continuing vocational education and training and (c) the importance of on the job
training. Considering the chosen measures, the contrast between the subsidiaries’ home-country, the USA, and the two host-countries, Germany and Switzerland, is highlighted: In the US, there are generally little medium occupational skills gained via apprenticeships, a prevalence of on the job training in combination with relatively narrow job roles and little skill transferability (Marsden, 1999: 121, 130 and 141). The situation is different in Germany and Switzerland and the gradual differences between the host-countries in terms of education and labour market flexibility can be disentangled.

Concerning US-subsidiaries in Germany, the more of a fit between a US-subsidiary 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 such as incremental innovation. Furthermore, the more host-country fit the subsidiary has, the less should the subsidiary offer its employees continuing vocational education and training. Even though generally firms with a focus on developing their employees may both engage in apprenticeship training and continuing vocational education and training in Germany, for US-subsidiaries we predict otherwise due to their home-country tendency 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 (Henneberger and Sousa-Poza, 2002; OECD (eds), 2012). Concluding we formulate the following hypothesis:

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

(a) apprenticeship training: The better the host-country fit in Germany, the more apprentices are trained.
(b) continuing vocational education and training: The better the host-country fit in Germany, the less continuing vocational education and training is 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-subsidiaries 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 and training offered by the subsidiaries and the importance of training on the job. We predict no difference according to subsidiary host-country fit in these instances. Both practice areas should not be too dissimilar from home-country US-practices as Switzerland can be considered liberal in labour market regulatory flexibilities and outcomes (e.g. high job mobility/low job tenure, Henneberger and Sousa-Poza, 2002; OECD (eds), 2012). Host-country fit should not have a significant effect when there is not a large enough difference between home- and host-country practices to begin with. With little host-country fit, most likely home-country practices are used by US-subsidiaries where possible. With high host-country fit, host-country practices should be used by US-subsidiaries. Since the HR practices referred to here (continuing vocational education and training and the importance of on the job training) are predictably not too dissimilar from practices found in the USA, regarding host-country fit there should not be a significant effect detectable when analysing such practices of the US-subsidiaries in Switzerland. In Switzerland staff will move between companies relatively frequently so that subsidiaries will need to offer training for newcomers accordingly as some skill complementarities will be lost when moving, especially if outside one’s industry. And due to the high job mobility of staff between companies in Switzerland, this should not allow to necessarily keep all specific skill advantages acquired in a job which
should in turn heighten the importance of skills acquired on the job – predictably not too dissimilar from the US-home situation. Concluding, the following hypothesis is formulated:

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

(a) *apprenticeship training*: The better the host-country fit in Switzerland, the more apprentices are trained.

(b) *continuing vocational education and training*: In Switzerland, the host-country fit does not affect the amount of continuing vocational education and training offered.

(c) *training on the job*: In Switzerland, the host-country fit does not affect the importance of on the job training.

### 3 DATA AND OPERATIONALISATION

#### 3.1 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, OECD (eds), 2003). Subsidiary contact information was obtained from the Amadeus database (Bureau van Dijk (eds), 2009). Five hundred subsidiaries from different sectors 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 briefly explained the purpose of the conducted study, 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: 1183, 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 increase response rates as well, 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 (Cycyota and Harrison, 2002: 151 report offering incentives as ineffective regarding top-management).

Overall, we gathered 66 replies, 33 in each of the two countries (however due to some item non-response the number of subsidiaries included in the analyses varies). As the study by Caligiuri and Colakoglu (2007) shows, modest sample sizes cannot generally be avoided in surveys sampling unique data. 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. As a comparison, in his survey regarding foreign subsidiaries in Germany, Vitols (2001a: 1) obtained a response rate of ten percent. Shoham (1996: 59), with a five percent response rate, reports it as low but in the range of previously administered studies.

3.2 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 observed from the descriptives, US subsidiaries 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-sub subsidiaries experience core business changes only every 7 years or less frequently, the corresponding figure for Germany is about 10 percent. In other words, core business changes are – other than expected – relatively more frequent in the German as compared to the Swiss US-sub subsidiaries. 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 and skill practices under question. They were used to test H2 and H3. Interestingly, on average the US-sub subsidiaries 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 5.6 percent, Bundesamt für Statistik (eds), 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-sub subsidiaries in Germany and Switzerland. The same applies for the importance of training on the job (H2/3c), there is no statistical difference between subsidiaries in Germany and Switzerland. However subsidiaries in the two countries vary with respect to continuing vocational education and 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. 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 (Gooderham et al., 2006: 1502 for this standard control measure) measured by its headcount. Also another aspect to control for with respect to H2 and H3 is when and how the subsidiary...
became a US-subsidiary, either by a start-up or by a merger/acquisition of a previously existing local company. This is because training and skill practices in an already established company may be more difficult to change, especially the longer the organisation 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 Sorge, 2003). Further, also a works council might have an effect on the adoption of local training and skill practices, especially for the subsidiaries in Germany, therefore we control for it also regarding H2 and H3. Additionally, in how far the respondents judge host-country industrial relations to allow for an efficient HR strategy is included (regarding H2 and H3) to control for possible attitude effects that may in turn be related to in how far local practices are adopted in the subsidiary.

[insert table 1]

4 RESULTS

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

Table 2 displays the marginal effects of a logit analysis with the dependent variable ‘location’ with ‘1’ representing ‘Germany’ and ‘0’ representing ‘Switzerland’. Explanatory variables are the subsidiary characteristics highlighted in H1 and headcount as a 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 (less frequent core business changes were coded as 1, and more frequent ones as 0, hence the negative relation) and are less ICT intensive. Further, they are less characterised by a price orientation, with the respective result being just borderline to not
significant at the 10 percent level (p = 0.105). However, US-subsidiaries in Germany and Switzerland do not significantly differ with respect to the type of assets used, their technology intensity and their degree of long-term orientation.

[insert table 2]

With respect to our hypothesis (H1) our results are mixed: We find support for the postulated difference in ICT intensity (H1c) and price orientation (H1b). Further and also as predicted, German and Swiss US-subsidiaries do not differ in the types of assets used (H1e) and also not in technology intensity (H1f). With respect to the frequency of core changes (H1a) and long-term orientation (H1d), our predictions do not hold: US-subsidiaries in Switzerland experience significantly less frequent core changes and are not significantly less long-term orientated as per our measure of subsidiary premises and equipment ownership. However, one should keep in mind that we administer a rather strong test of the varieties of capitalism approach by focusing on employment relations comparative advantages only and by choosing two quite similar country locations.

4.2 US-subsidiaries’ training and 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 country location it finds itself in (Germany or Switzerland), according to the logit analysis we employed (for an alternative way to measure ‘fit’ see Kluike, 2012). 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).
Next, we run pair wise correlations assessing the relationship between a subsidiary’s host-country fit and its training and skill practices (table 3) – separately for the two country locations. 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 and training it offers, while there is no significant correlation between the two variables in subsidiaries located in Switzerland – supporting H3b. Furthermore and as predicted, in Germany, we find a significantly negative correlation between host-country fit and the importance of on the job training (H2c) while – as predicted – there is no such link in Switzerland (H3c).

However, concerning apprenticeship (H2a/3a) training, in both country locations, other than predicted, we find no relation with subsidiaries’ host-country fit. Apparently, the extent to which US-subsidiaries actively participate in the training of apprentices is – unlike postulated in H2a and H3a – unrelated to their host-country fit. This is somehow counter-intuitive, because training apprentices should provide a key competitive advantage to US-subsidiaries with a good host-country fit in both of the two countries.

[insert table 3]

In a last and final step, we run separate regression analyses (OLS or Tobit – depending on the dependent variable) for each country location and each training and skill variable with the explanatory variable ‘host-country fit’ and the control variables displayed in table 1, Panel C – except for headcount which is already included in the fit measure. As the variable ‘works council’ is highly correlated with the variable ‘type of subsidiary incorporation’ in the subsidiaries in Germany, we do not include the two variables at the same time. Rather, we only include the variable ‘type of incorporation’ plus the additional controls (see table 4), and
then – as a robustness check – the variable ‘works council’ plus the additional controls.\(^3\)

While not all of our models are significant, overall, the correlation results are confirmed by the regressions.

\[\text{insert table 4}\]

In sum, we find US-subsidiary employment relations practices variation within Germany 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-subsidiaries in Switzerland we find no significant relation between host-country fit and training and skill practices. While this non-relation was in fact postulated for the field of continuing vocational education and 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.

5 CONCLUSIONS

In this article, we first studied in how far we can distinguish US-subsidiaries located in Germany and Switzerland according to a set of characteristics that can be linked back to host-location employment relations complementarities. In spite of the apparent similarity between the two country locations, we found US-subsidiaries in Germany to be characterised by significantly more frequent core business changes, less ICT intensity and somewhat less of a price orientation than their counterparts in Switzerland. An implication of this finding is that there are indeed different employment relations comparative advantages in different country locations utilised by multinationals, which fits to study findings such as by Griffith and

\(^3\) Regressions including the variable ‘works council’ instead of ‘type of incorporation’ mainly confirm the results: Only for subsidiaries in Germany regarding the importance of training on the job, the host-country fit result turns borderline insignificant (p = 0.106).
Macartney (2010). However, subsidiaries in Germany and Switzerland are also more similar - in terms of their long-term orientation - than expected, and the opposite as predicted in terms of how often core changes happen (more frequent core changes in the subsidiaries in Germany). This rather mixed support for our hypothesis outlines that the picture is somewhat more complex than one may deduct from the varieties of capitalism approach.

Our second line of investigation concerned the question whether and how US- subsidiaries within Germany and Switzerland differ in their training and skill practices according to their individual host-country fit. In the case of Germany we found – as predicted – that a subsidiary’s host-country fit affects the extent to which local training and skill practices are used, except for training apprentices. In the case of Switzerland and – except for H3a, training apprentices, compatible with our theoretical analysis – we do not find a host-country fit effect. From here, we can go back to the literature on home- and/or host-country effects with additional insights. Overall our findings indicate that when analysing host-country effects (see e.g. Edwards and Kuruvilla, 2005 for an overview of selected studies; Ferner et al., 2001; Rosenzweig and Nohria, 1994; Schmitt and Sadowski, 2003), the host-country fit of the subsidiary needs to be taken into account: If, as indicated by our findings, 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, however, host-country fit will not affect their use.

Taken at face value, our results imply that there are country level comparative advantage differences between Germany and Switzerland with respect to employment relations and that according to subsidiaries’ host-country fit one can distinguish between subsidiaries’ employment relations practices. Our article directs attention to both cross and within country differentiation in terms of employment relations, and our findings indicate that these
differentiations are substantial for an in-depth analysis of foreign subsidiaries’ host-country practices adoption.

Future studies should refer to different home- and host-countries and focus on different employment relations practices – ideally with a larger sample size. While our study may not be representative in a statistical sense, it should nevertheless provide an important starting point for future research in the area.
REFERENCES


FIGURE 1: Vocational education and training and labour market flexibility

vocational education and training

strong

weak

low

high

labour market flexibility

Germany

Switzerland

USA
## TABLE 1: Variables and descriptives

<table>
<thead>
<tr>
<th>Construct</th>
<th>Questionnaire item</th>
<th>Mean (Std.)</th>
<th>Germany</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A: Subsidiary characteristics determining host-country fit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>core business changes (H1a)</td>
<td>How often does the subsidiary business encounter core business changes? choice of: every seven years and less often □ yes (1 = less frequent) □ no (0 = more frequent)</td>
<td>0.1 (0.3)</td>
<td>0.3 (0.5)</td>
<td></td>
</tr>
<tr>
<td>price orientation (H1b)</td>
<td>The success of our main business driving products/services is price determined. (5.P. Likert-Scale)</td>
<td>3.2 (0.9)</td>
<td>3.2 (1.1)</td>
<td></td>
</tr>
<tr>
<td>ICT intensity (H1c)</td>
<td>What share of the subsidiary budget is spent on information and communication technology? approx. %</td>
<td>6.1 (7.7)</td>
<td>8.3 (9.0)</td>
<td></td>
</tr>
<tr>
<td>long-term orientation (H1d)</td>
<td>What share of the premises and equipment is subsidiary owned? approx. %</td>
<td>48.4 (40.6)</td>
<td>53.1 (44.2)</td>
<td></td>
</tr>
<tr>
<td>type of assets (H1e)</td>
<td>Assets and components used could easily be switched to another use (e.g. new products/services). (5.P. Likert-Scale)</td>
<td>2.8 (1.2)</td>
<td>2.4 (1.1)</td>
<td></td>
</tr>
<tr>
<td>technology intensity (H1f)</td>
<td>Our main business driving products/services belong to high-tech. (5.P. Likert-Scale)</td>
<td>3.4 (1.3)</td>
<td>3.4 (1.4)</td>
<td></td>
</tr>
<tr>
<td><strong>Panel B: Training and skill practices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>apprenticeship training (H2a, H3a)</td>
<td>What percentage of staff is currently made up of apprentices? approx. %</td>
<td>2.7 (3.8)</td>
<td>1.8 (3.2)</td>
<td></td>
</tr>
<tr>
<td>continuing vocational education and training (H2b, H3b)</td>
<td>How many days of training did staff receive on average in 2009? approx. %</td>
<td>6.4 (7.1)</td>
<td>3.4 (2.6)</td>
<td></td>
</tr>
<tr>
<td>training on the job importance (H2c, H3c)</td>
<td>The most important work skills of our staff have been acquired on the job. (5.P. Likert-Scale)</td>
<td>3.4 (0.8)</td>
<td>3.5 (0.8)</td>
<td></td>
</tr>
<tr>
<td><strong>Panel C: Controls</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>staff headcount</td>
<td>Please let us know the current overall staff headcount: approx.</td>
<td>485 (1,263)</td>
<td>376 (1,072)</td>
<td></td>
</tr>
<tr>
<td>year of subsidiary incorporation</td>
<td>The year of incorporation is: year:</td>
<td>1999 (9.4)</td>
<td>1985 (22.2)</td>
<td></td>
</tr>
<tr>
<td>type of subsidiary incorporation</td>
<td>The subsidiary was incorporated in form of a: □ start-up (1) □ merger/acquisition (0)</td>
<td>0.5 (0.5)</td>
<td>0.5 (0.5)</td>
<td></td>
</tr>
<tr>
<td>central HR company strategy</td>
<td>An HR strategy applicable in the entire company is followed. (5.P. Likert-Scale)</td>
<td>3.4 (1.3)</td>
<td>3.7 (1.1)</td>
<td></td>
</tr>
<tr>
<td>existence of a works council</td>
<td>Is there a works council? (in CH: ’Personalkommission’) □ yes (1) □ no (0)</td>
<td>0.5 (0.5)</td>
<td>0.2 (0.4)</td>
<td></td>
</tr>
<tr>
<td>attitude towards host-country industrial relations</td>
<td>National industrial relations allow for having an efficient HR strategy. (5.P. Likert-Scale)</td>
<td>2.9 (1.3)</td>
<td>3.1 (1.3)</td>
<td></td>
</tr>
</tbody>
</table>

The number of answers varies between 24 and 33 due to item non-response.
### TABLE 2: Logit regression of location - marginal effects

<table>
<thead>
<tr>
<th>Marginal effects after logit in country (D=1/CH=0)</th>
<th>dy/dx</th>
<th>standard errors</th>
<th>90% confidence interval from</th>
<th>to</th>
</tr>
</thead>
<tbody>
<tr>
<td>core business changes (H1a)</td>
<td>-0.45***</td>
<td>0.15</td>
<td>-0.70</td>
<td>-0.19</td>
</tr>
<tr>
<td>price orientation (H1b)</td>
<td>-0.16(*)</td>
<td>0.10</td>
<td>-0.33</td>
<td>0.00</td>
</tr>
<tr>
<td>ICT intensity (H1c)</td>
<td>-0.03**</td>
<td>0.02</td>
<td>-0.06</td>
<td>-0.01</td>
</tr>
<tr>
<td>long-term orientation (H1d)</td>
<td>-0.00</td>
<td>0.00</td>
<td>-0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>type of assets (H1e)</td>
<td>0.09</td>
<td>0.08</td>
<td>-0.03</td>
<td>0.22</td>
</tr>
<tr>
<td>technology intensity (H1f)</td>
<td>0.01</td>
<td>0.06</td>
<td>-0.10</td>
<td>0.11</td>
</tr>
<tr>
<td>headcount</td>
<td>0.00</td>
<td>0.00</td>
<td>-0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Observations: 51  
Pseudo R$^2$: 0.2215  
Prob>Chi2: 0.0288  
Log likelihood: -27.452599

*** significant at 1%, ** significant at 5%, * significant at 10%.

Marginal effects at means except for core business changes where the discrete change from 0 to 1 is analysed.
### TABLE 3: Correlations between training and skill practices and host-country fit

<table>
<thead>
<tr>
<th>training and skill practice</th>
<th>Germany</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>apprenticeship training (H2a, H3a)</td>
<td>0.08</td>
<td>0.16</td>
</tr>
<tr>
<td>continuing vocational education and training (H2b, H3b)</td>
<td>-0.47**</td>
<td>-0.06</td>
</tr>
<tr>
<td>training on the job importance (H2c, H3c)</td>
<td>-0.38*</td>
<td>0.02</td>
</tr>
</tbody>
</table>

*** significant at 1%, ** significant at 5%, * significant at 10%.

The number of answers varies between 22 and 26 due to item non-response.
### TABLE 4: Regressions: Training and skill practices, host-country fit and control variables

<table>
<thead>
<tr>
<th>apprenticeship training (H2/3 a)</th>
<th>Germany</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobit regression (robust standard errors)</td>
<td>$\text{PsR}^2 0.08/ \text{N 24/}$</td>
<td>$\text{PsR}^2 0.11/ \text{N 21/}$</td>
</tr>
<tr>
<td></td>
<td>$\text{Prob}&gt;F 0.02$</td>
<td>$\text{Prob}&gt;F 0.22$</td>
</tr>
<tr>
<td></td>
<td>LogPsLik: -45.11</td>
<td>LogPsLik: -35.49</td>
</tr>
<tr>
<td>coefficient</td>
<td>3.2</td>
<td>9.6</td>
</tr>
<tr>
<td>host-country fit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>central HR company strategy</td>
<td>2.4**</td>
<td>0.9</td>
</tr>
<tr>
<td>type of incorporation</td>
<td>-4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>year of incorporation</td>
<td>0.1</td>
<td>-0.0</td>
</tr>
<tr>
<td>attitude towards host-country IR</td>
<td>0.9</td>
<td>2.6</td>
</tr>
<tr>
<td>constant</td>
<td>-187.8</td>
<td>-5.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>continuing vocational education and training (H2/3 b)</th>
<th>Germany</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>OLS regression (robust standard errors)</td>
<td>$\text{R-Squ 0.29/ N 23/}$</td>
<td>$\text{R-Squ 0.38/ N 19/}$</td>
</tr>
<tr>
<td></td>
<td>$\text{Prob}&gt;F 0.20$</td>
<td>$\text{Prob}&gt;F 0.13$</td>
</tr>
<tr>
<td>coefficient</td>
<td>-17.4*</td>
<td>1.0</td>
</tr>
<tr>
<td>host-country fit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>central HR company strategy</td>
<td>-1.0</td>
<td>1.5**</td>
</tr>
<tr>
<td>type of incorporation</td>
<td>1.4</td>
<td>1.8</td>
</tr>
<tr>
<td>year of incorporation</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>attitude towards host-country IR</td>
<td>0.6</td>
<td>-0.5</td>
</tr>
<tr>
<td>constant</td>
<td>-116.0</td>
<td>-41.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>training on the job importance (H2/3 c)</th>
<th>Germany</th>
<th>Switzerland</th>
</tr>
</thead>
<tbody>
<tr>
<td>OLS regression (robust standard errors)</td>
<td>$\text{R-Squ 0.23/ N 24/}$</td>
<td>$\text{R-Squ 0.22/ N 21/}$</td>
</tr>
<tr>
<td></td>
<td>$\text{Prob}&gt;F 0.12$</td>
<td>$\text{Prob}&gt;F 0.56$</td>
</tr>
<tr>
<td>coefficient</td>
<td>-1.7*</td>
<td>0.0</td>
</tr>
<tr>
<td>host-country fit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>central HR company strategy</td>
<td>0.1</td>
<td>-0.3</td>
</tr>
<tr>
<td>type of incorporation</td>
<td>-0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>year of incorporation</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>attitude towards host-country IR</td>
<td>-0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>constant</td>
<td>-16.5</td>
<td>-13.4</td>
</tr>
</tbody>
</table>

*** significant at 1%, ** significant at 5%, * significant at 10%.