

# THE CROSS-NATIONAL TRANSFER OF HRM PRACTICES IN MULTINATIONAL COMPANIES TOWARDS THEIR SWISS SUBSIDIARIES

Oliver SCHRÖTER

Eric DAVOINE

Chair of Human Resource Management and Organization

University of Fribourg, Switzerland

Bd. De Pérolles 90

CH-1700 Fribourg

Tél. : ++41 +26 300 82 42

Fax : ++41 +26 300 96 33

[Oliverchristian.schroeter@unifr.ch](mailto:Oliverchristian.schroeter@unifr.ch)

## Abstract:

*At present, Hofstede's "culturalist" approach on cross-cultural research (1980, 2001) is dominating the field of scientific publications in international HRM (human resource management). In recent times, an alternative approach called comparative institutionalism (Hall/Soskice 2001, Whitley 1994, 2000) has been increasingly applied to study HR practices in multinational companies. In this theoretical framework, the national context is represented as an institutional environment in which firms are embedded. In the present paper, comparative institutionalist theory is applied to the analysis of HRM-practices in Swiss subsidiaries of multinational companies. Following this approach, we present the main results of an in-depth bibliographic study on the Swiss business system. Potential host country effects in the sense of constraints and opportunities for HRM practices of MNC subsidiaries in Switzerland are presented in detail. Focusing on the question of qualifications, we underline the comprehensive system of dual vocational training, suggesting that firms are likely to be involved in apprentice training and value professional expertise. In comparison to Germany, the relatively low institutional constraints deriving from the industrial relations system gives more flexibility to MNCs to develop their own practices in the local environment.*

## Keywords:

International HRM, multinational corporations, business systems, host country-effect, Switzerland

## **Introduction**

In the field of comparative or cross-cultural management research, few studies exist on Human Resource Management (HRM) practices in Switzerland. Even if data has been published in the Cranfield study (Erten et al. 2004), an extended analysis of the national context is needed to understand the Cranfield figures. In an earlier study conducted during the 1980s, Bergmann (1994) based his work primarily on Hofstede's culturalist theory (1980, 2001) implying a twofold interest of our present study. First, since the 1980s, Switzerland, together with the global environment, has undergone important changes which justify the need for a new study on this subject. Second, institutionalist approaches have never been applied to management practices in Switzerland. The analysis of the Swiss institutional context results from an in-depth bibliographic study undertaken to facilitate the empirical research of this paper. An introduction to institutionalist theory and its application to the field of international HRM (IHRM) are first provided. Subsequently, Whitley's (1994, 2000) business system framework is presented in detail. Building on this framework, the main features of the Swiss institutional framework and some potential effects on HRM-practices in local subsidiaries will be presented. In the last part, special interest will be given to the system of skill development in the national vocational training system due to its great importance for the management of competencies. We use examples from an exploratory study conducted in Swiss subsidiaries of German, American and French MNCs.

## **Comparative institutionalist theory and its application in the context of international HRM**

### **A critique and distinction of culturalist and institutionalist approaches**

Hofstede's "culturalist" approach (1980, 2001) is the dominant strand of literature regarding context-centred research on international HRM. According to this theory, cultural variations in value orientations, systematic cross-national differences in human behaviour and business practices are explained by a different positioning of people on mostly bipolar cultural dimensions. These so-called cultural dimensions are derived from variations in value orientations of an ethic approach (Holzmüller 1995, p. 55, Barmeyer 2004, p. 90) that allow comparisons between several cultures. These differences are due to their socialization in the context of a specific national culture. In the words of Hofstede (1980, 2001), a collective mental programming is forged among individuals belonging to one national culture, which subsequently leads to them sharing of a common "software of the mind". Concerning such cross-cultural research, some important shortcomings have been mentioned in literature. For instance, a culturalist approach cannot show evolutionary mechanisms of a national context. Furthermore, these approaches fail to address the differences of subcultures and strategies of local actors (McSweeney, 2002). As a basis for comparative research in HRM, culturalist explanations have been judged as being of minor utility (Wächter 2004, p. 3). On one hand, it is rarely clear which elements of national culture are responsible for shaping corporate structures and decisions. On the other hand, these approaches fail to explain the mechanisms of how cultural values influence practices. Another obstacle is that cultural characteristics are considered as being equivalent with national differences (Ferner 1997). Tempel et al. (2005, p. 182) point out that, by focusing on individual behaviour in a culturalist perspective, the analysis of an organization and its personnel policy are put on the backburner. Finally, Weber et al. (1999, p. 185) claim that similar studies have been vigorously criticized because of their

lack of theoretical foundation and methodological rigour. In the end, Tempel et al. (2005, p. 182) come to the conclusion that “culture” appears to be used as a catch-all variable.

While culturalist and institutionalist theories tend to emphasise national particularities and divergence, they are opposed to “culture free” approaches which support universalisms and international convergence (Lane, 1989, p. 20, Gooderham et al., 2004, p. 19). Nevertheless, one basic difference consists in the way they analytically perceive the influence of culture. In culturalist approaches, culture is conceptualized as an ideational system. It focuses on the formerly mentioned values, norms and significations as transmitted via socialization, which are meant to condition a general propensity to act in a certain manner. In institutionalist approaches, however, cultures are seen as adaptive systems and embrace all forms of living that societies have adapted from their environment. In this case, culture takes the form of artefacts or, in organisational studies, the form of institutions, which are seen as socially transmitted behavioural patterns. Accordingly, such studies concentrate on how the nature of organisations reflects the institutional features of the society they are embedded in. Institutions are seen as concrete expression of value orientations as they have historically developed within a given society (Child, Tayeb, 1982/83, p. 41). Hence, we can see that institutionalist and culturalist theories are not necessarily contradictory. Yet, in the former, culture is considered as a background variable giving way to more concrete institutions. These institutions constitute the context which is considered to shape entrepreneurial or organisational action, hence, HRM-policy.

### **Comparative institutionalist theory applied to research in IHRM**

When applied to international HRM, certain arguments of the comparative institutionalist theory are abandoned, notably the idea of institutions being inflexible and characterized by a high level of determinacy. Nevertheless, the central argument of national institutions shaping the structure and behaviour of companies is conserved (Tempel et al. 2005, p. 183). Institutions are not viewed as parameters or situative variables, which are supposed to exert a more or less strong influence on organisational action, but as a mutual connection between organisational action on one hand and institutions on the other hand. The latter manifest themselves on a cognitive, normative and regulatory level (Wächter 2004, p. 4). Hence, neither organisations nor managers are to be seen as mere “passive pawns” (Scott 1995, p. 132), but rather as strategic players trying to change the rules of the game in favour of their own interest. In this regard, Westney (1993) points out that MNCs are of particular interest. Studies based on comparative institutionalist approaches consider the transfer from parent companies to their subsidiaries as a contextualized construction of practices (Barmeyer, Davoine, 2007). Accordingly, the transfer from a parent company to its subsidiaries depends on a multitude of complex effects, namely from the institutional environments of the home and host country in addition to the strategies of different actors within the organization (Geppert, Mayer, 2006). In view of this outlook, actors are considered to take an active part in the design and redesign of their respective environments and therefore balance patterns of determinacy derived from the institutional analysis (Redding 2005, p. 124). These actors possess the ability to formulate strategies that can be directed toward the adoption, adaptation or resistance of transfer (Barmeyer, Davoine, 2006). Recent studies show that such latitude is not a monopoly of parent companies, but rather that actors of subsidiaries invoke (constraints imposed by) the institutional framework of their host country to their own advantage (Tempel, 2002, Ferner et al., 2004). Firms’ practices are thus considered to be embedded (Ferner, 2000a) and to evolve in continuous interrelation with their specific institutional context. This is the reason why the centre of interest is placed on institutions having an impact on the structure, strategy and HRM of an enterprise. Besides, other factors such as size, type of

industry or market conditions have to be taken into consideration, although these, representing contingency factors (Lane, 1989, p. 22-25), are not the centre of interest of this research. Factors including age, industry and experience in the host country should not be ignored in institutionalist studies due to their explanatory content pointed out in relevant studies (Wächter, Peters, 2004, p. 187). Figure 1 depicts the institutional perspective on HRM.

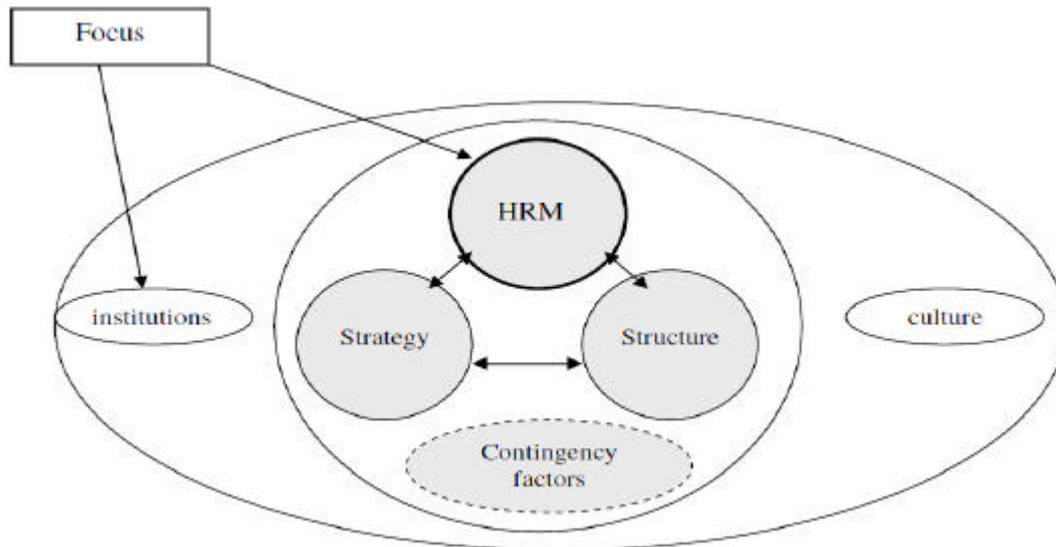


Figure 1: The institutional perspective on HRM (Wächter et al. 2003, p. 6, based on Tichy et al., 1982)

The inner circle highlights the interdependency of strategy, structure and HRM in a company. Contingency factors such as type of industry, and the size or age of the company are emphasized as possible variables of explanation. The outer circle highlights that external factors, culture and institutions, shape HRM. A group of researchers has investigated the interrelation of MNCs and national business systems/institutional environments as well as the effects of this relation on international HRM (especially Ferner, 1997, 2000, Ferner et al., 2004). In order to have a broad view of the interactions between MNCs and their institutional environment, or business system, a comprehensive literature research is conducted. This proceeding provides a deep insight into industrial relations, production systems, various forms of corporate governance and the historical development of economic systems. On the subject of empirical studies, qualitative methods including detailed case studies are of significant importance for they allow an investigation into complex chains of cause and effect and multiple interrelations. The latter are still not sufficiently understood and explained to conduct quantitative studies (Tempel et al. 2005, p. 189).

## Home and host country effects in the study of HRM-practices

This body of work mainly focuses on two questions:

- 1) if and to what extent HR-strategies of MNCs are shaped by the national business system of their *country of origin* and
- 2) in which ways MNCs' behaviour is adapted to their *host countries'* institutional setting.

In an attempt to answer these questions, instead of focusing on single HR-practices, researchers have tried to draw a broad picture of HRM in MNCs, examining the process of policy formulation, the transfer process, and the process of implementation of personnel policy in the host country. Through this approach, the interaction between MNCs and the businesses systems is depicted in detail also taking heed of the dynamics of this interaction.

Countries studied so far based on such a comparative institutionalist approach include mainly the USA, Germany, the UK, Ireland, Spain and, to a lesser extent, France (see for example: Ferner, Quintanilla, 1998, Wächter et al., 2003, Tempel, Walgenbach, 2004, Fenton-O’Creevy et al., 2008).

As follows from the research questions presented above, we can distinguish two different effects of institutional environments on firms’ HRM-practices: *home country or country of origin-effects* (Ferner 1997) on the one hand, and *host country effects* on the other hand. In the present paper, we concentrate on potential host-country effects of the specific Swiss institutional framework on foreign subsidiaries’ HRM-practices. These are supposed to differ to some extent from the HRM-practices known from the respective MNC’s country of origin. The question will therefore be what kind of hybrid practices are likely to be found in Switzerland. In analysing what kind of institutional restrictions or support for different HRM-practices exist in Switzerland, we can infer on likely transformations of HRM in the Swiss institutional setting. Studying subsidiaries seems to be particularly promising since we consider it easier to observe Swiss practices and get an idea about contextual influence in local units which supposedly tend to be more markedly Swiss and less internationalized compared to Swiss headquarters. The host country effect and its analysis concern first and foremost the process of implementation. Once again, the host country institutions relevant for HR practices have to be examined in detail in order to identify barriers or problems in the event of a transfer requiring an adaptation or completely preventing the transfer.

MNCs strategies to introduce home country practices are a primary focus in this analysis as well as host country actors’ strategies, due to the fact that we presume there is some latitude concerning actors’ strategies in every institutional setting. Basically, considering cases where MNCs adopt practices different from those employed in their home countries, we can distinguish between forced differentiation and differentiation by choice (Ferner, 2000a). Whereas the former refers to legal and other institutional constraints, the latter points to institutional openness and flexibility granting a greater decisional latitude concerning HRM-policies. Examples for differentiation have been found in German subsidiaries abroad, which did not transfer employee co-determination practices as existing in Germany (Dörrenbächer, 2004, Tempel, 2001, Ferner, et al. 2001, Ferner, Varul, 2000). Contrarily, even in rather constraining institutional settings such as the German one, US-MNCs have proven to be able to find leeway to reproduce their home practices (Royle, 1998, Muller, 1998). Furthermore, we have to take into consideration the power balance between headquarters and subsidiary actors. Both can draw on different resources including the institutional setting of the host country when formulating their strategies in negotiations about standardization of practices (Ferner, Edwards, 1995, Ferner, 2000b, Tempel, 2001, Geppert et al., 2003). Such power resources of local actors may be expert knowledge about host country institutions like local labour markets or legislation (Ferner, 2000b, Tempel, 2001, Almond et al., 2005). Further relations with important local actors such as clients, authorities or trade unions may represent such power resources. In both cases, headquarters may decide to ignore the interpretation and consultation given by the subsidiaries, but stakes are high as they might run the risk of conflicts with trade unions or worsen good relations with local actors (Geppert et al., 2003). Other power resources may arise from financial success or important roles within the MNC in the sense of “global mandates” (Birkinshaw, 1995, 2000).

## **The Business systems framework and the analysis of institutional environments**

In the following paragraph, we present Whitley’s (1994, 2000) business systems framework presenting the specific theoretical frame guiding the analysis of the Swiss institutional context. Starting from a presentation of central factors and key institutional features and their

interrelation, the four major institutional arenas identified by Whitley will be presented and shortly described.

## Central factors and key institutional features of business systems

The following analysis will be based on the comparative institutionalist business systems framework as developed by Whitley (1994, 2000) which allows us to depict the main characteristics of national institutional environments, their interrelation, and their effects on organisational structure and behaviour, respectively. Following this perspective, differences between national systems of economic organization continue to persist because “...*nation states constitute the prevalent arena in which ... social and political competition is decided in industrial capitalist economies*” (Whitley, 2000, p. 19).

Whitley’s typology comprises three key institutional features which refer on the one hand to the nature of firms (“ownership coordination”, “non-ownership coordination”) and on the other hand to “employment relations and work management”. An overview of key characteristics is provided in table 1 below:

Table1: Key characteristics of business systems

<i>Ownership coordination</i>
Primary means of owner control (direct, alliance, market contracting)
Extent of ownership integration of production chains
Extent of ownership integration of sectors
<i>Non-ownership coordination</i>
Extent of alliance coordination of production chains
Extent of collaboration between competitors
Extent of alliance coordination of sectors
<i>Employment relations and work management</i>
Employer-employee interdependence
Delegation to, and trust of, employees (Taylorism, task performance discretion, task organization)

Source: Whitley, 2000, p 34.

Ownership coordination concerns the relationship between owners and managers, and the extent to which economic activities are integrated into an organization by means of vertical or horizontal integration. Non-ownership coordination broaches the issue of inter-firm relationships between members of production chains, between competitors and between firms in different sectors. Employment and work management refers first to employment relations and hence to the degree of employer-employee interdependence, relating to the reliance on external labour markets as opposed to the commitment and mutual investment in organizational capabilities. Secondly, forms of work organization can be distinguished primarily in terms of the discretion and trust employers grant to the bulk of their workforce in organizing and carrying out tasks, summarized as the degree of managerial delegation and trust towards employees.

Business systems consist of a combination of these general characteristics, which are interconnected and thus suggest that only a limited number of combinations are likely to remain established over historical periods, because contradictions between them can be expected to generate conflicts between social groups and prevalent institutional arrangements. Business-system characteristics in different societies developed interdependently with dominant social institutions during and after industrialization, whereby distinctive systems of economic organization arise wherever key associated institutions are both mutually reinforcing and distinctive from other ones. Nation states often develop distinctive business

systems because state intervention defines the role and efficacy of those institutions, regulating forms of co-ordination, employment relations, and work organization (Whitley, 2000, p. 44-47). Special attention is therefore given to societal macro-institutions, most notably those governing access to critical resources, especially labour and capital. Building on these elements, Whitley identifies four major institutional arenas: the state, the financial system, the skill development and control system, and dominant conventions governing trust and authority relations. Table 2 below provides an overview of institutional arenas:

Table 2: Key institutional arenas structuring business systems

<i>The state</i>
Dominance of the state and its willingness to share risks with private owners
State antagonism to collective intermediaries
Extent of formal regulation of markets
<i>Financial system</i>
Capital market or credit based
<i>Skill development and control system</i>
Strength of public training system and of state-employer-union collaboration
Strength of independent trade unions
Strength of labour organizations based on certified expertise
Centralization of bargaining
<i>Trust and authority relations</i>
Reliability of formal institutions governing trust relations
Predominance of paternalist authority relations
Importance of communal norms governing authority relations

Source: Whitley, 2000, p. 48.

The extent to which dominant institutions are integrated and their features mutually reinforcing determines the distinctiveness and degree of cohesion of business systems. This determines the extent of possible change a business-system can undergo. According to Whitley, such changes are rare and run slowly. Nevertheless, change is not impossible, though it requires a demanding set of conditions due to the incremental and path-dependent nature of system change (for more details see Whitley, 2000, p. 123-136). In empirical studies, however, the argument of interlocking institutions and resistance to change of national patterns of economic organization is dropped for the sake of focusing on the interaction between MNCs and business systems (Tempel et al. 2005, p. 186).

## **The Swiss institutional framework and potential influences on HRM practices in Swiss subsidiaries of foreign MNCs**

For an analysis of important features of the Swiss institutional setting, we will build on the four institutional arenas presented above: the state, the financial system, skill development and control, and trust and authority relations.

### **Important characteristics of the Swiss State**

Firstly, considering the role of the state, we can say that the Swiss state is usually described as basically being liberal, but at the same time exposing selective protectionist policies for certain industries (David, Mach, 2006, p. 3), leading authors to speak about a “dualistic structure” regarding the Swiss case (Mach 1998, p. 32). David and Mach (2006, p. 9) follow

Katzenstein (1985) in considering the Swiss state a liberal version of a corporate state. The Swiss political system can be considered a somewhat special case, due to the fact that it escapes common classification schemes to some degree. The Swiss state is organized following strictly federal principles unifying 26 constituent states called “Kantone” or “cantons” reflecting the historical, religious and linguistic fragmentation of the country. Within the Swiss federation, we can see a strict reign of the principle of separation of powers in legislation, judiciary and executive authority, with the principle of subsidiarity implying a relatively weak federal state. In line with this principle, the Swiss federal state does not have a conceptually applied, long-term economic and industrial policy. Economic policy reacts pragmatically, short-dated and on a sector level on industry demands (Linder, 2003, p. 508). These elements are paired with far-reaching direct democratic rights of co-determination provided by the systematic use of referenda. A strict political representation proportional to the different linguistic groups can be considered as a constituent feature of the Swiss consensual democracy. The fact that several linguistic cleavages exist in Switzerland, together with the pronounced political federalism, influences the organisation of trade unions and other economic associations. These are either organized as parallel partner organizations on a regional, often cantonal level, which are then integrated on the federal level in an umbrella organization, or a single national association whose structures publish their resolutions and communications in German and French (Armingeon, 2001, p. 408-413). Concerning Swiss civil society more in general, we can also say that the level of memberships in associations, clubs etc. is rather high, promoting remarkable social networks (Armingeon, 2001, p. 408, Weibler, Wunderer, 2007, p. 283).

Armingeon (2001, p. 413) and Linder (2003, p. 490-500) also point out the relative weakness of the central state, leading to multiple corporatist arrangements which imply collaboration between state and associations with partial delegation of state prerogatives to private sector associations to provide administrative and legal cooperation (Farago, 1987, Linder, 2003, p. 507). Apart from the existence of direct democratic elements, another unique feature of the Swiss political system is the absence of a single head of state. Instead, the Swiss government is composed of five federal representatives of equal status, whose president is a *primus inter pares*, which means that the presidency rotates yearly. Here also, proportional linguistic and regional representations are respected, including at the same time every political grouping big enough to launch a referendum (Linder 2003, p. 499). Associations are also so highly implicated in the process of policy formulation that Mach (2002, p. 4) concludes, “*The parliament does not play a significant role in the definition of these policies*“.

## **Main characteristics of the Swiss financial system**

In the following, we will consider in two sections some important characteristics of the Swiss financial system and corporate governance as closely linked issues.

### **Corporate Governance in Switzerland**

The legal origins of Swiss law are found in the Civil law of German origin, distinct from Civil law of French and Common law of Anglo-Saxon origin (Perlitz, Seger 2004, p. 2). In Switzerland, we find two-tier board structures like in Germany, but without employee representation in the supervisory body. Like in the German case, a separation between supervisory and managerial leadership is provided. Perlitz and Seger (2004, p. 3) state that in Germany and Austria, civil law originates from a German background, which traditionally values co-operation and consensus. Of significant importance is employee codetermination, work councils and the rights given to employees of certain sized companies to obtain information about the firm’s economic and financial situation as well as any major plans for organizational changes, such as mergers. Although we can quote several authors speaking

about a strong consensus orientation of Swiss management (Davoine, 2005, Bergmann, 1994, Chevrier, 2002), this is not manifest in its legal-institutional framework, leading Davoine (2005, p. 93) to underline a major difference between the German and Swiss consensus: Whereas in Germany compromise is the result of sometimes fierce confrontation watered down by institutional mechanisms and devices for conflict resolution between social partners, Swiss consensus is more connected with the democratic practice in small states. In this case, fewer intermediary institutions stand between the government and the individual, and industrial relations are more personal.

Switzerland as a coordinated market economy (Hall, Gingerich 2004, p. 9) has traditionally been classified as Rhineland-oriented, especially due to the important role of family or majority stock-ownership and the significant influence of controlling shareholders as well as important legal restrictions on voting rights and free transferability of different kinds of shares underpinning this tendency. Under such conditions, the development of a “market for corporate control” like in Anglo-Saxon states could develop only slowly during the 1990s (Beiner et al. 2006, p. 251). Ledentu (2007, p. 43) assumes that there is still considerable ownership concentration in Swiss companies, with 73% of firms having a single stock owner holding at least 20% of voting rights, which compares to 37% in the UK (and even 90% in Germany). Comparing the Swiss ownership pattern to the German and British, who are located at the opposite ends, we observe that Switzerland is closer to the continental European model exposing higher ownership concentration than the UK, but not as marked as Germany. According to Faccio and Lang (2002, p. 367) a substantial discrepancy between ownership and control is found more in Switzerland than elsewhere. These elements consolidating majority stockholders’ influence at the dispense of minority shareholders are still present in Swiss Corporate Governance, although Mach et al. (2006) already detected various changes in this domain which are due to international developments. According to Mach et al. (2006, p. 27), the old, bank-centred insider model began to soften in the 1980s under the pressure of international developments and the appearance of institutional investors—especially pension funds—financial analysts and auditors. These changes induced internationally oriented Swiss MNCs to modify the traditional practices and mechanisms of control which had lost efficiency and legitimacy. Therefore, during the last two decades, the Swiss framework of Corporate Governance rules was aligned with the requirements of capital markets and the needs of minority shareholders, favouring a greater liquidity of the stock market and greater transparency of accounting.

### **Access to capital in the Swiss financial system**

Concerning corporate finance and the importance of the capital market and banks, we can draw on the results of a recent KPMG-study (2008) on the Strategic financial focus of Swiss companies and on international comparative OECD-data. In the above-mentioned KPMG-study, Chief Financial Officers (CFOs) of 85 big and mid-sized companies with turnovers between 50 million and 10 billion CHF were interviewed. Some results of this survey point to the fact that considerable importance seems to be attributed to bank policy in terms of qualitative criteria pertaining to the financial structure, even if requirements of owners and shareholders ranked higher (KPMG, 2008, p. 17). The considerable role of banks is underlined when referring to the importance attributed to internal rankings of Swiss banks, which was considered being far more important than external ratings (KPMG, 2008, p. 15), with a small 12% of respondents thinking that requirements of rating agencies and capital providers were “very important” (KPMG, 2008, p. 21). 60% of the interviewed CFOs described their company as being “cash rich” (KPMG, 2008, p. 3) leading 48% of the CFOs to declare that they did not expect the current credit crunch to have any impacts on their companies (KPMG 2008, p. 26). Accordingly, the authors of the KPMG study concluded that

many Swiss companies benefit from strong financial power and frequent preferential treatment by local banks due to local competition.

OECD data for the year 2000 suggests that Switzerland disposes of a highly developed capital market ranking: first in terms of its relative size as measured in terms of market capitalisation as a proportion of GDP, and second concerning its liquidity as measured through the ratio of total value of shares traded as a proportion of GDP (OECD 2004a, p. 19). Considering the sources of funds raised for private equity or venture capital in Switzerland (average 1995-2000), banks are not as dominant as in Germany, in the Netherlands or in Austria. But compared to the USA, Australia or New Zealand, where pension funds play the most important role, the weight of banks is still considerable. At the same time though, it has to be underlined that the financial sector, accounting for 11% of gross domestic product (GDP), is a very important pillar of the Swiss economy. According to OECD (2004c) data, Switzerland is the world leader in private banking, managing approximately 30% of the world's private wealth held outside the owners' countries of residence. Assets managed in Switzerland in the form of customer deposits amounted in 2002 to 2,870 billion CHF, representing more than six times the Swiss GDP (428 billion CHF in 2002). Finally, considering the economic weight of pension funds, investments in most countries amounting to around 5% of GDP and reaching values of about 50% of GDP in Anglo-Saxon states like the USA or the UK, in Switzerland these investments even largely exceed GDP and can be considered of very great importance (OECD 2004b, p. 231).

To shortly resume, we can say with Theurillat et al. (2008) that Switzerland is paradoxical, being on one hand very "rhenish", with banks and families taking a leading role in controlling big business (David et al. 2004, Faccio, Lang 2002), and on the other hand developing a pension fund system which, since the mid-1980s, has attracted considerable funds and is still experiencing strong growth.

## **Norms and conventions governing trust and authority relationships in Switzerland**

As a next part of the Swiss frame, we present the norms and conventions governing trust and authority relations. Once again, we will treat formal institutions generating trust and authority relationships in two separate subsections.

### **Institutions generating trust**

Formal institutions generating trust are important in determining the extent to which economic actors are able to trust in impersonalized, institutional procedures when they engage in economic exchange relationships, which is a basic factor for the establishment of cooperative relationships between firms. Where such procedures are weak, personal relationships become more important (Redding, 1990, Hamilton et al., 1990). Concerning this matter, we can underline the outstandingly high degree of political and institutional stability and continuity referred to by economic historians in order to explain the reputation of Switzerland as a solid, reliable and comfortable financial centre (Bergier, 1990, p. 337-340, Siegenthaler, 1986, p. 270). This stability can partly be explained by the particular path of Swiss external policy that, after the Peace of Westphalia, withdrew in 1648 from all international alliances and, since then, has never engaged in war—with the exception of the Sonderbund civil war in 1847. Opposed to many other European states, Switzerland never underwent a fascist, communist or national socialist regime (Christen, 2006, p. 319). We can thus infer that Swiss institutions are stable and trustworthy, a statement that can further be sustained via disposable data about corruption. According to Transparency International (2008), Switzerland ranks fifth on the Corruption Perceptions Index with a stable value of 9 and according to the Global Corruption Barometer belongs to the countries that are least

affected by bribery with only 1% of interviewees reporting to have paid a bribe (Transparency International, 2007, p. 4). The judiciary branch is of crucial interest for economic transactions, and the possibility to enforce contractual obligations is favourably judged with a better score than the EU-average (Transparency International, 2007, p. 22). We can thus assume that in Switzerland, formal institutions do generate trust and facilitate impersonal economic exchange relations and cooperative relationships. Together with the above-mentioned intermediary associations supporting the state concerning coordination and regulation within a framework of institutionalized procedures, it is very likely that opportunistic behaviour will be discouraged. This is even more likely since in the Swiss coordinated market economy (Hall, Gingerich 2004, p. 9), such an environment is combined with a powerful, highly appreciated and comprehensive public system of dual vocational training, leading to cooperation between economic actors (Whitley 2000, p. 54).

### **Authority relationships between superiors and subordinates in Switzerland**

Lastly, considering the authority relationship between superiors and subordinates Whitley (2000, p. 52) follows Beetham (1991) in distinguishing six dimensions that influence this relationship. The first dimension is the extent to which formal rules and procedures restrict superiors' discretion. The second is that we have to consider the degree of reciprocity expected by subordinates in exchange for their compliance and allegiance. The third dimension is the social and moral distance between superiors and subordinates, which is considered to be adequate. The fourth dimension deals with the degree of autonomy and the independent status of subordinates. The fifth dimension concerns the modality of legitimating access to leading positions and the last dimension is the degree to which superiors can invoke common interests to make their superiors execute their directives. In this regard, we can draw on studies that stem from a cross-cultural strand of literature, as mentioned in the beginning. We refer to the works of Laurent (1985, p. 45-51) and Hofstede (2001) for the first dimension. Laurent described different conceptions of organization across cultures. In the study, Switzerland was the country that displayed the most marked conception of organizations as systems of formally defined rules. This conception fits quite well with the Hofstedian (2001, p. 377) implicit model of organization, commonly known as the "well oiled machine". It is further sustained by Bergmann's (1994, p. 32) study on Swiss Management, concluding that in Switzerland, an instrumental conception of organisation is dominant where hierarchy exclusively exists to assure rational task performance. This is confirmed by yet another study led by Chevrier (2002, p. 149), describing that the Swiss principle of subsidiarity is accompanied by a clear definition of tasks and responsibilities, with people expecting that clearly formulated, formally implemented rules are respected. Weibler and Wunderer (2007, p. 264) found that Switzerland ranks extremely high on the uncertainty avoidance dimension as well as on the long-term orientation dimension, due to the fact that Swiss companies tend to follow a quality-based strategy, as opposed to a strategy that aims to conquer new markets. Furthermore, Bergmann (1994) views the firm as a partnership of convenience or community of interests. Another important feature of Swiss management is the already above mentioned consensus orientation (Davoine, 2005, Bergmann, 1994, Chevrier, 2002, Weibler, Wunderer 2007) and the low power distance between superiors and subordinates, pointing to a rather low score of 34 (Hofstede 2001, p. 500). The general consensus remains that an emphasis on status symbols is felt to be annoying in many places (Weibler, Wunderer 2007, p. 266). Bergmann (1994, p. 89) also points to the low physical and psychological distance between subordinates and superiors. The latter is supposed to exert power moderately in order to have a broad knowledge of technical know-how and possess professional as well as relational competences. Chevrier (2002, p. 148, 158) underlines the principle of subsidiary, which implies a high degree of autonomy for each

functional department. The marked principle of equal treatment, relating to a high ranking concerning Trompenaars' universalism-dimension (Hampden-Turner, Trompenaars 2000, p. 16), points to the importance of rules being valid for and applied equally to everyone.

Another interesting aspect is the strong performance orientation of Swiss people found by Weibler and Wunderer (2007, p. 268), which can be traced back notably to the historical influence of Calvinist religion citing that "work is highly valued in Swiss society". This strong performance orientation and high value attributed to work, finds its concrete institutional expression in the failure of an initiative to reduce weekly working hours of 42 hours via a plebiscite in 1988 (Weibler, Wunderer 2007, p. 269). As for the last dimension, the legitimacy of access to leading positions, we can draw on a recent empirical study undertaken by Davoine (2005), who classified the Swiss career model following the schemes established by Evans et al. (1989). In this study, Davoine (2005) concluded that in Switzerland the Germanic career model is dominant, with a prime on professional-technical competence, firm-internal networking and a comparatively low but recently increasing inter-firm mobility. Taking into account all the characteristics, we consider Swiss enterprises having a rather formal political culture. Following Whitley (2000, p. 52), in such environments, discretion of superiors is restricted through formal rules and procedures and the rather independent and autonomous status of subordinates as individuals able to make rational decisions is acknowledged as well as their involvement in decision-making processes. Communal forms of authority further imply a relatively high level of mutual trust and commitment with shared understandings of priorities and interests. Expertise is often relied on as a key quality of supervisors.

## **Skill development and control**

The institutional arena of skill development and control will be presented in two sections. The first one deals with industrial relations in Swiss corporatism and the second outlines important characteristics of the Swiss educational system.

### **Skill control – Swiss liberal corporatism and industrial relations**

The Swiss version of corporatism, called liberal, is to some extent atypical because, as opposed to other "regular" forms of corporatism, it is by no means centred on conflict resolution between capital and labour. In Switzerland, labour is much more weakly represented compared to other corporate systems such as the Austrian or the Norwegian (Linder 2003, p. 508). Accordingly, Oesch (2007, p. 339) points out that Swiss neo-corporatism involves two asymmetric sides: a strong one concerning integration in policy formulation, and a weak one regarding industrial relations – a thesis supported also by Pelizzari and Schief (2009). The political left wing and the trade unions are structurally weak, but politically integrated into corporatist arrangements functioning heavily in favour of business interest groups. Thus, Pelizzari and Schief (2009) describe the state of Swiss trade unions as wealthy but powerless. The structurally greater power of employers' associations in the policy formation process is reflected in a comparatively weak standard of legal protection of employees (Pelizzari, Schief 2009, Velo-Roessl 2003, p. 45). Although trade unions are able to launch referenda and therefore benefit from an institutional veto-player-status (Linder 2003, p. 507), there are very few cases where they achieved their aim of legal modifications (Mach, 2000).

Concerning industrial relations, we find another interesting arrangement with the so-called "Arbeitsfriede" (industrial peace), referring to a trade-union code of conduct excluding strike. This code can be traced back to 1937 as being part of a system based on the framework of socio-political institutions in Swiss consensual democracy (Siegenthaler 1986, p. 250). Other characteristics of Switzerland's industrial relations system are the comparatively high degree

of decentralization in wage bargaining, the high degree of coordination concerning managerial wage policy, which is provided for by employers' associations, and the decentralized system of industrial relations, which is contrasted by a high degree of integration of employers' associations and trade unions into the process of policy formulation and execution (see Flanagan, 1999, p. 1152, Armingeon, 2001, p. 408, Soskice, 1990, p. 41, Kriesi, 1998, p. 264).

Concerning conflict regulation, the Swiss System of industrial relations ranks first in an international comparison of OECD-states, with only one working day lost per 1000 employees between 1970 and 2001. This contrasts with the OECD-average of 219 days; the USA having lost 215 days, Germany 28 and France 160 during the same period (Lesch 2003, p. 31). Although being classified as corporatist, data referring to the comparatively low coverage of bargaining contracts (39% in 2005<sup>1</sup>) and union density (19% in 2002, Lesch 2004, p.3), Switzerland is much closer to Anglo-Saxon states like the UK, Ireland or the USA (Ebbinghaus, Kittel 2006, p. 230). Also Pelizzari and Schief (2009, p. 7) conclude that *“It can easily be seen that Switzerland is in both dimensions, in terms of labour rights standards (LRS: 64) and collective bargaining coverage (47%), much nearer to the average Anglo-Saxon type country than to the corporatist countries.... Switzerland has rather low labour rights standards and a low collective bargaining coverage rate compared to the corporatist countries”*.

An important difference compared to Germany is the absence of the constraining legal framework known as *Betriebsverfassungsgesetz* (BetrVG 1972), which contains major restrictions with regard to managerial prerogatives providing for co-determination and consultation rights of the work council (*Betriebsrat*). The only legally institutionalized feature of this kind found in Switzerland is the *Mitwirkungsgesetz* (1993)<sup>2</sup>. This law obliges management to inform employees about the economic development of the firm and provides for some employee participation or involvement concerning security at work, the case of a transfer of the firm, massive layoffs and affiliation to pension institutions, but without granting co-decisional rights like in Germany.

### **Skill development – Important characteristics of the Swiss educational system**

As for skill development and control, the Swiss educational system is hampered by the country's federal structure, which means there are a total of 26 different systems of primary and secondary education (Markees, 2002). However, a constitutional article was introduced in 2006, enabling the government to harmonize educational systems in case of continuing regional disparities. This effort has therefore allowed, to a certain extent, the coordination and harmonization of school systems. These measures were initiated in the context of the HarmoS-concordat<sup>3</sup> to assure common standards across cantons and regions.

Switzerland has ten cantonal universities co-financed by the federation, two federal institutes of technology at Zurich (ETHZ) and Lausanne (EPFL), and seven federally recognized technical colleges of higher education (Fachhochschulen) offering studies leading to a Bachelor or Master's degree like in other European countries. A certain degree of institutional concentration and specialization was found by Dyllick and Torgler (2007) concerning the universities where members of the board of Swiss MNCs have studied. This especially

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<sup>1</sup> See national statistics: <http://www.bfs.admin.ch/bfs/portal/de/index/themen/03/01/key.html> <consulted 13.03.2009>.

<sup>2</sup> Bundesgesetz vom 17. Dezember 1993 über die Information und Mitsprache der Arbeitnehmerinnen und Arbeitnehmer in den Betrieben (Mitwirkungsgesetz); [http://www.admin.ch/ch/d/sr/c822\\_14.html](http://www.admin.ch/ch/d/sr/c822_14.html) <20.05.2009>.

<sup>3</sup> See the pages of the Swiss Conference of Cantonal Ministers of Education (EDK): <http://www.edk.ch/dyn/11659.php> <consulted 26.05.2009>.

concerns the University of St. Gallen, for finance, business and economics, and the ETHZ, for technical studies.

Concerning vocational training, Switzerland has a federally administrated comprehensive system of dual vocational training. The federal state, cantons and firms collaborate to assure high quality dual vocational training following legal prescriptions of the federation *Berufsbildungsgesetz BBG* (2002). Vocational training courses of three to four years are jointly organized by cantonal vocational schools and apprenticing companies, the content of this training being negotiated in a tripartite arrangement incorporating employer, employee associations and the state (Meunier 2007, p. 11, Gonon 1999, p. 48). Currently, we can find about 200 federally recognized courses of initial vocational training in Switzerland<sup>4</sup>. Furthermore, the *Berufsbildungsgesetz* provides for the possibility to validate knowledge and competencies not formally acquired at the workplace via a specified procedure in order to facilitate the reintegration of workforces into the labour market<sup>5</sup>.

Considering the typology of systems of vocational education and training (VET) established by Winterton (2007), we can say that the Swiss system of dual vocational training is quite similar to the German or Austrian, implying a workplace focus distinct from school focus and state-regulation opposed to market-led systems. In Switzerland, this includes legal regulation via the above-mentioned 2002 *Berufsbildungsgesetz* and jointly administered corporatist arrangements implying major involvement of the social partners especially concerning policy making and design of curricula as well as implementation and quality assurance. The content of Swiss VET is rather workplace-focused. The practical applicability of teaching contents being assured by strong employer involvement in curricula design and implementation of VET. Similar to Germany, education and employment in Switzerland are a shared preoccupation between educational institutions and firms at the sector level with a strong consensus among employers not to free-ride (Klarsfeld/Mabey 2004: 652). Additionally, in Switzerland, employers can create a collective VET-fund on an industry level. For such funds, the Swiss *Berufsbildungsgesetz* (Art 60, Abs. 3) provides for the possibility to obtain a Declaration of General Applicability which is delivered by the Federal Council (*Bundesrat*). Once declared of a general applicability, employers can legally be forced to contribute to such a fund and free-riding behaviour can thus be efficiently suppressed.

A remarkable point about Swiss dual VET, which is *a priori* strongly focused on the teaching of workplace and job-specific skills, is that the *Berufsbildungsgesetz* (Art. 21, Abs. 2a) also explicitly aims to promote social competencies and the self-fulfilment of apprentices via the schooling part of VET. On the European level, Switzerland actively participates not only at the Bologna process, aiming at a better comparability and compatibility of University studies and degrees that make use of the European Credit Transfer System (ECTS), but also at the Copenhagen process introducing a similar model called European Credits for Vocational Education and Training (ECVET)<sup>6</sup>.

Furthermore, the above-mentioned 2006 modification of the Swiss Federal Constitution (Art. 64a) equally assigned the right to the Federal State to determine the principles not only

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<sup>4</sup> For more details see the document *Vocational Education and Training in Switzerland 2009* published by the Swiss Federal Office for Professional Education and Technology available under <http://www.bbt.admin.ch/themen/berufsbildung/index.html?lang=en> <consulted 26.05.2009>.

<sup>5</sup> For more details see the pages of the Swiss Federal Office for Professional Education and Technology: <http://www.bbt.admin.ch/themen/berufsbildung/00106/00404/index.html?lang=de> as well as <http://www.validacquis.ch/angebote/index.php> <consulted 26.05.2009>.

<sup>6</sup> For more details see the pages of the Swiss Federal Office for Professional Education and Technology: <http://www.bbt.admin.ch/themen/internationales/00115/index.html?lang=en> <consulted 26.05.2009>.

concerning initial vocational training but also further education<sup>7</sup>. Since then, this new article has induced a vivid discussion between trade unions and the Swiss employers' association on the necessity to stipulate a new law on further education. An interesting finding in this respect is that a recent Swiss study (HR-Barometer 2009) reports the quite impressive average number of 6.5 days of annual training per employee in the German speaking part and of 5.5 days in the French speaking area of the country. In a 2007 communication on the issue of further education policy, the Swiss employers' association explicitly recognized lifelong learning as an important condition to maintain the competitiveness of the country and the important contribution further education is making to achieve this aim. Besides, the Swiss employers' association points to the fact that different collective agreements between the social partners already contain provisions concerning the mutual promotion of further education<sup>8</sup>.

Although there has been a tendency towards more general education leading to the *Matura* in recent years (similar A-level or SAT exam), dual vocational training is still important and highly appreciated by employers (Gonon 1999, p. 53). Remarkable differences exist between the different linguistic areas of Switzerland regarding the ratio of dual vocational training and other forms of post-obligatory education, especially general education. In the German-speaking area, the dual vocational training remains by far the most important type of education with 68% and general education accounting for only 21%. In the French and Italian speaking areas, this former percentage reaches values only between 52 and 56 percent. For the benefit of general education ratios, it reaches higher values, between 37 and 42% respectively (Bundesamt für Statistik BFS 2003, p. 38). Considering 20-24 year olds, with a percentage of 83% disposing of a post-obligatory education, Switzerland surpasses the European average of 76%. This is especially true with regards to its neighbouring countries Germany (73%), France (80%) and Italy (70%) (Caballero, Liardet, Erlach, 2005, p. 11). Expenditures for education amounted to 5,8 % of the GDP in 2005 (BFS 2007, p. 15).

### **First contrasted observations on the host country effects on skill development practices of foreign subsidiaries located in Switzerland**

As we have seen in the last section, the Swiss institutional framework governing skill development and control partly resembles the one from Germany. First and foremost, it concerns the educational system, which exhibits the same principal distinctive features. This involves firstly a well-financed system of public universities, including specialized technical universities as well as technical colleges of higher education (*Fachhochschulen*) focalising more on professional-practical knowledge. Moreover the German educational system has a dual system of vocational training, similar to the one found in Switzerland. The resemblance of the two dual systems of VET is striking, also when it comes to governance mechanisms involving legal state control and workplace focus with strong involvement of social partners in initial vocational training as well as further education and corresponding policy design. Nevertheless, as we illustrated in the section on the Swiss system of industrial relations, some important differences concerning the degree of legal protection and co-decisional rights assigned to employees as well as bargaining structures and power of trade unions can be identified. In this respect, the Swiss institutional framework greatly differs from the one of its

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<sup>7</sup> See Article 64a of the 1999 Swiss Federal Constitution available under <http://www.admin.ch/ch/d/sr/c101.html> <consulted 26.05.2009>.

<sup>8</sup> See communication of the Schweizerischer Arbeitgeberverband *Berufliche Weiterbildung: eine persönliche Angelegenheit*, 13.12.2007 available under <http://www.arbeitgeber.ch/webexplorer.cfm?ddid=86DAC69B-1185-C196-EFC8C21497FC62C1&id=29&tlid=1> <consulted 26.05.2009>.

German neighbour in that it holds fewer constraints for the decisional freedom of employers and provides a more flexible labour market.

To come back to our initial questioning about possible Swiss host-country effects on HR-practices of foreign MNCs' subsidiaries, we observed in our exploratory study a significant investment in vocational training and professional training in most of the Swiss subsidiaries of German, French and US-American MNCs in spite of the absence of strict legal constraints. We found some evidence allowing for the formulation of the hypothesis that the Swiss system of VET is very useful, inducing French and US-American MNCs to engage in apprenticeship, albeit the fact that neither US nor French-based MNCs could reasonably be expected to have any similar tradition or experience in their respective home-country due to the absence of a comparable dual system of VET. In the case of a French MNC, the local Swiss HR manager reports a tough discussion with the French headquarters to invest in VET and he had to produce evidence based on productivity figures to show the return of this investment. Similar observations have been done in US-American MNCs that invest regularly in vocational training and technical education without any legal constraints, with HR managers praising the Swiss apprenticeship system.

Another hypothesis about the Swiss system of VET was the possibility of a reproduction of home-country practices of German MNCs. These are used to a dual system of VET and a corresponding work organization and are able to reproduce their home-country practices in Switzerland because here they find the indispensable institutional support of an encompassing system of dual VET. According to our first observations, such institutional support does not imply that automatically all subsidiaries of German MNCs will engage in dual VET or develop the same technical training activities as they do in their home country. We rather suppose that this depends on other factors like industry and specific activities undertaken in the single Swiss subsidiary. The more permissive institutional framework of industrial relations in Switzerland is probably a reason why some German MNCs chose not to transfer their home country practices in Switzerland although they would have found a relevant environment to do so.

These examples show the relevance of considering other contingency factors and actor strategies to analyze HR practices of subsidiaries. In spite of similarities in national models of skill development, Swiss subsidiaries of German MNCs do not reproduce automatically the home country model of skill development and qualification structures of the headquarters. On the other hand, in spite of a permissive legal frame, many subsidiaries of French and US American MNCs seem to adapt their home practices to the Swiss host country environment, by choosing to invest in VET and in technical training.

## **Conclusions**

Our bibliographic study on the Swiss business system points to potential host country effects in the form of constraints and opportunities for HRM practices of MNC subsidiaries. Switzerland represents an interesting case for a host country by being very "Germanic" in its institutions and, at the same time, very open and less coercitive in its legal frame of industrial relations. Focusing on the question of qualifications, we underline the comprehensive system of dual vocational training suggesting firms are likely to be involved in apprentice training and value professional expertise. In comparison to Germany, the relatively low institutional constraints deriving from the industrial relations system gives more flexibility to MNCs to develop their own practices in the local environment.

As a theoretical and methodological approach, comparative institutionalism seems to offer an useful way to understand how national – both home country and host country - contexts could

influence management practices and HR policy in MNCs. The first observations of our explorative study show that the subsidiary practices can vary very much from the parent company practices even if the institutional contexts were similar. The next step of our study should provide a deeper analysis on the basis of several case studies in order to get a better understanding of the transfer process and of the factors influencing the local adaptation of practices.

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