SUSTAINABLE ENTREPRENEURSHIP
REGIONAL AND COUNTRY STUDIES

Germanic Europe

SUSTAINABLE ENTREPRENEURSHIP PROJECT

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Sustainable Entrepreneurship: Regional and Country Studies (Germanic Europe)

About the Project

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Sustainable Entrepreneurship: Regional and Country Studies
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PART IV
GERMANIC EUROPE

Preface

In 1985 Ronen and Shenkar reviewed the then-published literature on country clustering[1], including works by Haire, Ghiselli and Porter[2]; Sirota and Greenwood[3]; Ronen and Kraut[4]; Hofstede (1976)[5]; Griffeth, Hom, Denisi and Kirchner[6]; Hofstede[7]; Redding[8] and Badawy[9]. Ronen and Shenkar integrated and synthesized the available data to propose their own map of country clusters based on patterns of employee work attitudes derived after reviewing responses of thousands of employees in dozens of countries around the world to questions about their general attitudes towards work (e.g., the importance of various work goals, their satisfaction of needs through work, organizational factors and managerial issues and the nature of roles and interpersonal relationships in the workplace including how well managers related to subordinates).

Using a statistical procedure known as "smallest space analysis", Ronen and Shenkar identified and diagrammed eight country clusters: Arab, Near Eastern, Nordic, Germanic,

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[1] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454. For further discussion of the various research studies reviewed by Ronen and Shenkar, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[2] M. Haire, E. Ghiselli and L. Porter, Managerial thinking: An international study (New York: Wiley, 1966).

[3] D. Sirota and J. Greenwood, "Understand your overseas work force", Harvard Business Review, 49(1)(1971), 53-60.

[4] A. Kraut and S. Ronen, "Similarities among countries based on employee work values and attitudes", Columbia Journal of World Business, 12(2) (1977), 89-96.

[5] G. Hofstede, "Nationality and espoused values of managers", Journal of Applied Psychology, 61 (1976), 148-155.

[6] R. Griffeth, P. Hom, A. Denisi and W. Kirchner, A multivariate, multinational comparison of managerial attitudes. Paper presented at the annual meeting of the Academy of Management, Detroit (August 1980).

[7] G. Hofstede, Culture's consequences: International differences in work related values (Beverly Hills: Sage, 1980). Hofstede's IBM survey is referenced frequently in this Guide and Ronen and Shenkar noted that several survey instruments used by Hofstede included various items relating to work goals (i.e., Hofstede's famous initial four dimensions of power distance, uncertainty avoidance, individualism and masculinity), need deficiency, fulfillment and job satisfaction. Hofstede also sought the opinions of respondents regarding their choice among four types of managers as to actual and preferred types of characteristics for their manager. Information regarding the variables used in the study and survey procedures that were followed is derived from S. Ronen and O. Shenkar, "Clustering Countries on Attitudinal Dimensions: A Review and Synthesis", The Academy of Management Review, 10(3) (July 1985), 435-454 (Table 1 – "Variables Used in the Studies Reviewed").

[8] G. Redding, "Some perceptions of psychological needs among managers in South-East Asia", in Y. Poortinga (Ed.), Basic problems in cross-cultural psychology (Amsterdam: Swets and Zeitlinger B.V.: 1976), 338-343.

[9] M. Badawy, Managerial attitudes and need orientations of Mid-Eastern executives: An empirical cross-cultural analysis. Paper presented at the annual meeting of the Academy of Management, Atlanta (August 1979).

Far Eastern, Latin American, Latin European and Anglo.[10] They also categorized four countries that they felt could not be easily fit into one of the clusters as "independents": Brazil, India, Israel and Japan. In general, countries tended to cluster together based on similarities in level of development and technological progress, geographic proximity, language and religious values and beliefs. Those countries that were classified as independents each had a unique language, religion, and history. The composition of the membership of each cluster is represented in the following table[11]:

Arab	Near Eastern	Nordic	Germanic	Far Eastern	Latin American	Latin European	Anglo
Abu-Dhabi	Greece	Denmark	Austria	Hong Kong	Argentina	Belgium	Australia
Bahrain	Iran	Finland	Germany	Indonesia	Chile	France	Canada
Kuwait	Turkey	Norway	Switzerland	Malaysia	Columbia	Italy	Ireland
Oman	Yugoslavia	Sweden		Philippines	Mexico	Portugal	New Zealand
Saudi Arabia				Singapore	Peru	Spain	South Africa
United Arab Emirates				Taiwan	Venezuela		United Kingdom
				Thailand			United States
				Vietnam			
Independents							
Brazil		India		Israel		Japan	

Ronen and Shenkar found that there country clusters generally corresponded to how countries might be grouped based on their measurements on the four original dimensions in Hofstede's cultural dimension model[12]:

	Power Distance	Individualism	Uncertainty Avoidance	Masculinity
Nordic	Low	Medium-High	Low-Medium	Low
Germanic	Low	Medium-High	Medium	High
Anglo	Low-Medium	High	Low-Medium	High
Latin European	High	High	High	Varies
Latin American	High	Low	High	Varies
Far East	High	Low	Low-Medium	Medium
Near East	High	Low	High	Medium

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[10] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454. Ronen and Shenkar actually presented the clusters in a "pie chart" format that grouped countries together in terms of their similarity on work-related variables and the table in the text follows this grouping of countries. For example, Latin American and Latin European countries were closely related as were Nordic and Germanic countries.

[11] Id. For discussion of "smallest space analysis," see L. Guttman, "A general non-metric technique for finding the smallest coordinate space for a configuration of points", Psychometrika, 33 (1968), 461-469.

[12] Derived from S. Ronen, Comparative and multinational management (New York: John Wiley & Sons, 1986), 262-265; and S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454.

A Germanic cluster was distinguished in five of the cluster studies reviewed by Ronen and Shenkar (i.e., Ronen and Kraut (1977); Hofstede (1976); Ronen and Kraut; Griffeth et al.; and Hofstede (1980)) and while four of those studies also distinguished a Nordic cluster one of them, Griffeth et al., combined the Germanic and Nordic countries into one cluster. In addition, Haire et al. did not identify a Germanic cluster but did include Germany in their Nordic cluster. Accordingly, the threshold question for Ronen and Shenkar was to verify, as they did, the reliability and explanatory value of recognizing separate Germanic and Nordic clusters: Austria, Germany and Switzerland in the Germanic cluster and Denmark, Finland, Norway and Sweden in the Nordic cluster. While there was sufficient data to justify distinguishing two clusters Ronen and Shenkar noted that they should be viewed as "separate but contiguous" on any global map of cultural clusters in light of their similarities on many dimensions. In fact, Hofstede's analysis showed that the two clusters were quite similar on each of his dimensions other than masculinity.[13]

1	2	3	4	5	6	7	8	9
		Austria	Austria		Austria		Austria	Austria
		Germany	Germany		Germany		Germany	Germany
		Switzerland	Switzerland		Switzerland		Switzerland	Switzerland
							Denmark	
							Finland	
							Norway	
							Sweden	
								Israel

Cluster Studies: (1) Haire, Ghiselli and Porter; (2) Sirota and Greenwood; (3) Ronen and Kraut (1977) (SSA of Sirota and Greenwood); (4) Hofstede (1976); (5) Redding; (6) Ronen and Kraut; (7) Badawy; (8) Griffeth, Hom, Denisi and Kirchner; and (9) Hofstede (1980).

Researchers working on the Global Leadership and Organizational Behavior Effectiveness project, commonly referred to as "GLOBE" project[14], concluded that the respondents to their surveys could be classified into 62 "societal cultures". In order to facilitate meaningful interpretation of the results the researchers determined that the societal cultures they were investigating could be meaningfully placed into one of ten "societal clusters," sometimes simply referred to as clusters. The clusters were designed, defined and created before the research was conducted, not as a result of the findings reached once the data was collected and analyzed, and were based on a variety of factors including the results of previous empirical studies; other factors such as common language, geography and religion; and historical accounts.[15] Societal cultures in the

[13] Id. Ronen and Shenkar also observed that while Sirota and Greenwood did not identify a Germanic cluster based on their original analysis—they placed Germany in their "independent" group—Ronen and Kraut's subsequent re-analysis of the data did show a Germanic cluster that included not only Germany but also Austria and Switzerland (both of which had been placed in an Anglo cluster by Sirota and Greenwood).

[14] For detailed discussion of the GLOBE project, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[15] For extensive discussion of the design of the societal cultures and the reasons for placement of societies within those clusters see Chapter 10 of R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds),

Germanic Europe cluster include Austria, Germany, the Netherlands and German-speaking Switzerland.[16] Societies in the Germanic Europe cluster were high in performance orientation, assertiveness, future orientation, and uncertainty avoidance and low in humane orientation, institutional collectivism, and in-group collectivism. Societies in this cluster tended to be competitive and more result-oriented than people-oriented, aggressive and reliant on strategic planning and rules and laws to maintain control over their current and projected future environment. The low scores on both of the collectivism dimensions meant that societies in this cluster were generally more individualistic and less group-oriented.[17]

The degree of similarity or dissimilarity between the Germanic Europe cluster and the other nine societal clusters with respect to the cultural dimensions measured during the GLOBE study was as follows[18]:

Correlation	Societal Clusters
Strong Similarity	Anglo; Latin Europe
Mild Similarity	Nordic Europe; Sub-Saharan Africa
Neutral	Latin America; Eastern Europe
Mild Dissimilarity	Southern Asia; Middle East (Arab)
Strong Dissimilarity	Confucian Asia

Based on the information in the table above a manager from a society in the Germanic Europe cluster would expect to find familiar cultural values, although not precisely the same as in his or her own society, in the Anglo and Latin Europe clusters but would need to be especially careful and mindful of significant cultural differences in the Confucian Asia cluster.

The following chart depicts the relative importance and intensity of endorsement of the six culturally endorsed leadership dimensions to the societies included in the Germanic Europe cluster:

Level of Importance/Endorsement	Leadership Dimension
High	Autonomous Leadership
Moderate	Charismatic/Value-Based Leadership
Moderate	Participative Leadership
Moderate	Humane Oriented Leadership
Moderate	Team Oriented Leadership
Low	Self Protective Leadership

Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004), 536. See also V. Gupta, P. Hanges and P. Dorfman, "Culture clusters: Methodology and findings," Journal of World Business, 37(1) (2002), 11-15.

[16] For further information on this cluster, see E. Szabo, F. Brodbeck, D. Den Hargo, G. Reber, J. Weibler and R. Wunderer, "The Germanic Europe cluster: Where employees have a voice," Journal of World Business, 37(1) (2002), 55-68.

[17] P. Northouse, Leadership: Theory and Practice (4th Ed) (Thousand Oaks, CA: Sage, 2006), 310-311.

[18] Chapter 10 of R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004).

Of the ten societal clusters the Germanic Europe cluster was a close second to the Eastern European cluster with respect to the strongest association of autonomous leadership with effective leadership with a mean score within the cluster (4.16) that was slightly above the mid-point of 4 on the 1-to-7 measurement scale.[19]   Leaders in societies in the Germanic Europe cluster are most likely to be perceived as effective if they practice independent, individualistic and self-centric leadership.   Societies in the Germanic Europe cluster strongly disapprove of leaders who are self-protective and engage in behaviors such as being status- and class-conscious, ritualistic, procedural, normative, secretive, evasive, indirect, self-centered, and asocial.   The leadership profile of the Germanic Europe cluster is relatively unique in light of its strong endorsement of autonomous leadership and low opinion of self protective leadership; however, the profile for this cluster is moderately different than the profiles for those clusters that assigned a low value to the autonomous leadership style including the Sub-Saharan Africa, Latin America and Confucian Asia clusters.   Leaders from the US and other societies in the Anglo cluster can expect substantial difficulties in deploying their preferred leadership styles in the Germanic Europe cluster due to differences regarding the value and effectiveness of a number of leadership styles notably the autonomous and humane-oriented styles.

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[19] Brodbeck et al. confirmed the findings of the GLOBE researchers by concluding that autonomy was perceived to be more prototypical of outstanding leadership in those European countries where autonomy was strong (i.e., the Germanic cluster, Georgia and the Czech Republic) than in those countries where autonomy was weaker (i.e., the Anglo, Nordic, Central, Latin and Near East European country clusters). See F. Brodbeck, M. Frese, S. Akerblom, G. Audia, G. Bakacsi, H. Bendova, et al., "Cultural variation of leadership prototypes across 22 European countries," Journal of Occupational and Organizational Psychology, 73(1) (2000), 1-29.

Chapter 1
Germany

> **References and Resources**
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> Additional information on studies and commentaries relating to various aspects of leadership and management styles and practices in Germany can be found in the Sustainable Entrepreneur's Libraries of Resources prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org) covering Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Finance, Human Resources, Product Development, Technology Management, Globalization and Managing Growth and Change.

§1:1 Introduction

Start-ups are being launched at a dizzying pace in Berlin, a phenomenon that has vaulted the city into the worldwide pantheon of aspiring innovation hubs. According to an article in *Wired* magazine in October 2013, "Berlin has been the most talked-about (and talked-up) startup hub in Europe for several years", and *Wired* also reported that there has been an increase in the number of accelerators and incubators in and around Berlin and that access to capital for startups appears to have improved.[20] However, skeptics question whether the Berlin start-up scene is more about chic art galleries and hip music and less about serious long-term innovation that will ultimately begin to produce a stream of truly global technology companies. Berlin entrepreneurs have been criticized for often relying on replication of business models developed elsewhere as opposed to identifying and developing their own ideas and Berlin start-ups struggle with shortages of qualified designers and engineers, difficulties obtaining venture capital funding, an immature local innovation infrastructure and a societal culture that, while changing, remains relatively risk averse and is typically slow to encourage nascent entrepreneurs to follow their passions and form their own company as opposed to traditional career paths. While there have been several successful local firms, they are often sold to larger foreign multinationals and Germany has not been the birthplace of a truly global technology company since SAP was born in 1972.

Berlin, which has been referred to as a relic of the Cold War unable to modernize with the same speed and vigor as other German business centers such as Hamburg and Frankfurt, has recently undergone a renaissance of sorts that has turned it into one of the most discussed, and fastest growing, communities for start-ups in the world.[21] Low rents, coupled with stylish art galleries and a surging underground music scene, have made Berlin a magnet for engineers and designers and Berlin's technology companies have gathered support from national and local politicians. The creative atmosphere that has

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[20] Europe's Hottest Startup Capitals: Berlin, Wired (October 1, 2013).

[21] Portions of the discussion of the Berlin start-up community in this section have been adapted from E. Westervelt, "The Next Silicon Valley?: Berlin Startups Catching Up With the Hype", NPR All Tech Considered (July 9, 2012) and M. Scott, "Technology Start-Ups Take Root in Berlin", New York Times: Deal Book (April 29, 2013).

emerged in Berlin's innovation community has been especially conducive to the launch of video gaming firms that have developed games that have gathered international followings and help put Berlin on the map for international investors and encouraged global technology companies, such as Google, to invest in local companies and incubators and look to the area as fertile ground for possible acquisitions. In addition to video gaming, Berlin has been the home for successful startups focusing on mobile advertising, online shopping and audio-sharing Web services.

Arguably the biggest potential asset for Berlin in its attempt to become a global innovation cluster is the city's ability to attract large numbers of creative people; however, the area has a long way to go to move beyond chaotic enthusiasm to the robust, mature networks found in Silicon Valley. Berlin has developed a unique, and somewhat dazzling, "startup scene" that includes cafes filled with dozens of people working away on their laptops and holding mini-meetings. For commentators like Westervelt though, the question is just how many of those people are working on a serious business plan as opposed to simply blogging about their experiences and how much fun it would be part of launching the next Facebook.[22] Berlin's innovation cluster has yet to produce a steady stream of successful exits (i.e., large acquisitions by multinationals in deals worth more than $1 billion or lucrative initial public offerings); however, there have been smaller acquisitions deals with well-known companies from the US (eBay, Google and Groupon) and Japan (Panasonic).

Although the Berlin start-up scene, and its focus on digital innovations, has achieved a large amount of attention, entrepreneurship also flourishes outside of Berlin in sectors such as chemistry and engineering that have been particular strengths of German business since the 19th century.[23] Since the end of the 2000s Berlin has been capturing a larger share of the startups launched in Germany and research published by McKinsey & Co. In October 2013 indicated that for every new business set up in Munich 2.8 companies were started in Berlin.[24] Berlin is attracting startups by offering cheaper rents for residential and office units than other European innovation clusters and one now finds startup events going on daily in Berlin with large crowds attending. The Institute of the German Economy has released statistics that showed that by 2013 Berlin had passed Munich to become Germany's main hub for venture capital investment.

§1:2   Entrepreneurship

A survey of entrepreneurial activity and climate throughout the EU conducted on behalf of the European Commission in 2008 revealed that Germany scored "average" on all of the entrepreneurial activity indicators, such as overall entrepreneurship rate and the rate of business failure, but that there was a high share of opportunity-seeking, risk-taking

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[22] E. Westervelt, "The Next Silicon Valley?: Berlin Startups Catching Up With the Hype", NPR All Tech Considered (July 9, 2012).

[23] Business Creation in Germany: A Slow Climb—A Vigorous Start-Up Scene Has Yet to Produce its First Breakthrough (October 5, 2013).

[24] J. Morgan and R. David, "'Poor but sexy' Berlin attracts wave of startups", San Francisco Chronicle (June 15, 2014), D2.

"pull" entrepreneurs in Germany.[25] Germany was found to be good breeding ground for entrepreneurship with respondents being generally optimistic about the chances for success in starting a new business and relatively unconcerned that entrepreneurship would be viewed negatively or that failed entrepreneurs would not be given a second chance. Interestingly, the researchers found that more than half of the entrepreneurs were living in rural areas, the high proportion among the EU countries studied, and that German respondents from rural areas were almost as likely to be entrepreneurs as respondents living in urban or metropolitan areas. An important finding was that the Germans were less likely than respondents in the other EU countries studied to say that their education helped them to develop an entrepreneurial attitude and develop an interest in entrepreneurship, thus leading the researchers to recommend that further resources be devoted to entrepreneurial education in Germany.

Results from several 2012 surveys of attitudes regarding entrepreneurship in Germany reported on by The Economist revealed a touch of reticence, with data from the Global Entrepreneurship Monitor indicating that the percentage of Germans agreeing that starting a business was an attractive idea stood at just under 50%, well below comparable percentages in several other European countries such as France (65%), the Netherlands (79%) and Poland (68%).[26] Figures compiled and released by Deutsche Bank indicated that a little less than 3% of the German population fell into the category of "new entrepreneurs", defined as owners of businesses aged three months to three and a half years who had open those businesses by choice rather than necessity, while the comparable percentage in the US was just under 8% and high percentages were found in the Netherlands, the UK, France and Sweden.

Potential entrepreneurs in Germany still face cultural restraints to innovative risk-taking and lack the support and access to networks that has been so crucial for success in Silicon Valley. One Berlin entrepreneur interviewed by Westervelt commented that the German business world remains conservative and highly risk averse and, in fact, in Germany venture capital is commonly referred to as "risk capital", a descriptive reminder of the aversion to risk among the German business community.[27] The 2012 GEM report found that 42% of the Germans surveyed would be deterred from starting a new business due to a fear of failing—comparable percentages in the Japan and the US were 53% and 32%, respectively—and commentators suggested that Germans were reluctant to view business failures as opportunities to learn for the next time and instead saw them as a sign that perhaps the best course of action was to return to a more stable career path with a university or one of the larger, more established German firms.[28]

Many German entrepreneurs begin their careers by following traditional educational paths with the ultimate goal of becoming a scientist or engineers in academia or with one

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[25] European Commission, Entrepreneurship Survey of the EU25 Secondary Analysis: Germany (2008).
[26] Business Creation in Germany: A Slow Climb—A Vigorous Start-Up Scene Has Yet to Produce its First Breakthrough (October 5, 2013).
[27] E. Westervelt, "The Next Silicon Valley?: Berlin Startups Catching Up With the Hype", NPR All Tech Considered (July 9, 2012).
[28] Business Creation in Germany: A Slow Climb—A Vigorous Start-Up Scene Has Yet to Produce its First Breakthrough (October 5, 2013).

of the large German multinational companies. If they encounter an idea that might be a feasible basis for a new start-up they often find that their supervisors discourage them from pursuing the project and that it is difficult to find local professional advisors who can assist them in developing plans to launch a new business. In contrast, entrepreneurs in the US frequently get support from their universities and employers to explore new ideas and, quite importantly, have ready access to venture capitalists and professional advisors that provide access to their networks to assist the entrepreneur in making connections with incubators to secure space to pursue their projects, angel investors to provide seed funding, potential customers and technical and managerial talent to build out their teams. Some commentators believe that there are signs of change and that entrepreneurship, working with technology-based start-up companies, is gradually but surely becoming recognized as a legitimate career path for young Germans just graduating from universities.[29]

Another criticism that has dogged the technology scene in Berlin has been a reputation for copying business models first developed in the US as opposed to focusing on creating homegrown innovative ideas. Critics have pointed to the Samwer brothers, who made substantial amounts of money incubating and selling German versions of eBay and Groupon to their original creators in the US and then used the proceeds of those sales to invest in companies that were essentially local versions of Facebook, Zappos and Zynga.[30] Rocket Internet, the incubator established and managed by the Samwers, has become renowned for its "storm-the-barricades culture" and simultaneously funding several similar companies that share resources as they rush to be the first to succeed with respect to a common business model.[31] Observers have pointed out that the absence of a local group of large globally successful companies, such as Facebook and Google in Silicon Valley, deprives the German start-up community of training grounds for prospective entrepreneurs, sources of standards for effective pursuit of innovation, and potential alliance partners and customers.

§1:3 Leadership

Boehmer presented and analyzed the findings of several Hofstede studies and the GLOBE study regarding societal culture in Germany and its influence on the use and efficacy of various leadership styles.[32] Boehmer explained that Hofstede's finding of low power distance in Germany meant that leaders would likely be under some pressure to justify power differences, since such differences would not be readily accepted without question by subordinates. Boehmer reminded that Germany's long standing apprenticeship system had contributed to a high level of education and sophistication

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[29] Id.

[30] M. Scott, "Technology Start-Ups Take Root in Berlin", New York Times: Deal Book (April 29, 2013).

[31] Business Creation in Germany: A Slow Climb—A Vigorous Start-Up Scene Has Yet to Produce its First Breakthrough (October 5, 2013).

[32] T. Boehmer, Leadership Tendencies of German Employees: Relations between Culture and Leadership Styles (2011) (citing G. Hofstede, "Cultural Dimensions in Management and Planning", Asia Pacific Journal of Management (1984), 81; and F. Brodbeck and M. Frese, "Societal Culture and Leadership in Germany", in J. Chhokar, F. Brodbeck and R. House (Eds), Culture and Leadership Across the World: The GLOBE Book of In-Depth Studies of 25 Societies (2007), 147, 162)).

within its workforce and that, as a result, workers expected their superiors to be experts in solving problems and accorded them respect based on their performance and not simply because of their position. Germany also scored high on individualism, which Boehmer interpreted as an indication that Germans felt they had control over their own fate and valued individual performance; however, Boehmer pointed out that individualism in German was not as pronounced as in the US and other Western countries. Germany scored high with respect to masculinity, was in the middle range of the countries surveyed by Hofstede with respect to uncertainty avoidance and fell on the "short-term" end of the scale with respect to long-term orientation.

According to Boehmer, the results of the GLOBE survey with respect to Germany were similar to those reported by Hofstede but for the GLOBE findings of lower long-term orientation and higher uncertainty avoidance.[33] In the GLOBE model Germany was one of several German-speaking countries, including Austria and German-speaking Switzerland, placed into a "Germanic cluster" and the GLOBE researchers found that within that cluster there was a high appreciation for charismatic and value-based leadership as well as for participative leadership. At the same time, self-protecting and defensive styles of leadership were viewed quite negatively among respondents from the Germanic cluster in the GLOBE survey. It should be noted that Ardichvili and Kuchinke also studied German preferences regarding leadership styles in the workplace and found that Germans tended to favor charisma, inspirational motivation, intellectual stimulation, and individual consideration as good leadership qualities as opposed to other qualities such as management by exception and laissez-faire leadership style.[34] In general, the traditional leadership style in the German workplace is relatively formal and based on large power distance between the leader and his or her subordinates.

Boehmer went on to examine the relationship between leadership styles and cultural dimensions in Germany by assessing the attitudes of 232 German employees towards task-oriented and relationship-oriented leadership styles and found that the respondents were more relationship-oriented than task-oriented, well-educated respondents tended to be more task-oriented, and government experience and gender did not have a significant influence on either task oriented or relationship orientation.[35] Boehmer also found evidence of strong tendencies toward cooperative leadership styles, at least in situations where the tasks required more formal education, and that bureaucratic leadership styles were deployed when the jobs did not require much formal education. Authoritarian leadership styles were neither dominant nor prevalent among the respondents to Boehmer's survey. The results led Boehmer to conclude, based on the results of this particular survey, that many German employees are self-confidently striving for cooperation, participation and power sharing, a finding that was consistent with the

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[33] Id.

[34] A. Ardichvili and K. Kuchinke, Leadership Styles and Cultural Values Among Managers and Subordinates: A Comparative Study of Four Countries of the Former Soviet Union, Germany, and the US, 5(1) Human Resource Development International 99 (2002) (as described in E. Arnaud, J. Camp, M. DeAngelo, K. Parsons, and J. Sturm, A Business Outtake On Germany: Cultural, Organizational, and Management Characteristics (August 11, 2010)).

[35] T. Boehmer, Leadership Tendencies of German Employees: Relations between Culture and Leadership Styles (2011).

relatively low power distance of German societal culture based on measurements using the model developed by Hofstede.

Boerner studied the role that leadership style can play in stimulating continuous improvement in companies using information collected from interviews with employees from 40 German firms of different sizes operating in industry, trade and services.[36] He found evidence to support his proposition that "leadership-by-encouragement" would strengthen employees' sense of independence, bolster their confidence and provide direction such that there would be at an atmosphere within the company that was conducive to innovation.   Boerner explained that leadership-by-encouragement empowers employees by making them feel that they are originators of action and decisions and also provides employees an orientation for their innovativeness. However, Boerner cautioned that companies must make it clear to employees that their ideas and suggestions are crucial for the success of the business and establish procedures that do not excessively restrict employees' latitude for developing innovative ideas. Companies must also work to reduce the anxiety and uncertainty that employees are likely to feel in an environment of continual organizational change and provide guidance on the path that is being taken by developing, and sharing information about, a medium- or long-term strategy of vision. Finally, Boerner advised that leadership-by-encouragement will only be effective when companies have selected and trained managers who are competent, perceptive, confident and secure and unthreatened by efforts of employees to exert influence as to the actions taken by the company.

Kuchinke studied differences in leadership styles and work-related values among managers, engineers and production employees of one global company's US and German telecommunication employees, explaining that the research was specifically focused on the degree of variance in leadership styles and behavior within and between the two nations; the level of variation in cultural, work-related norms and values within and between the two countries; and the effects of cultural differences on leadership styles in both countries.[37] Kucninke stated at the outset that one of the key questions that the study intended to address was to determine to what degree German managers and supervisors used transformational, as opposed transactional, leadership styles. Kucninke noted that while transformational leadership had become particularly popular and accepted in the US during the 1980s and 1990s, it was not highly regarded in Germany due, to some degree, to the resemblance it had to aspects of Hitler's Third Reich. Instead, societal values in Germany that emerged in the late 1940s and 1950s supported and dictated contractual, rule-based forms of governance and management that were anchored in firm policies and guidelines enforced in many formal and informal ways and which "form[ed] the foundation for transactional styles of leadership in which desired behaviors

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[36] S. Boerner, Promoting Continuous Improvement-Empirical Impacts of Leadership Style in German Companies (1999).

[37] K. Kuchinke, "Leadership and Culture: Work-Related Values and Leadership Styles among One Company's U.S. and German Telecommunications Employees", Human Resource Development Quarterly, 10(2) (1999), 135.

are elicited through a process of exchange, and in which specific duties are rewarded with very clearly specified rewards and recognitions".[38]

The survey conducted by Kucninke revealed that US employees reported "a greater frequency of leadership focused on vision, a desired future, and optimism and enthusiasm in its attainability" but that there was no significant differences between the two countries with respect to transactional leadership styles, leading Kucninke to conclude that "the primary difference between the two countries lies in the relatively stronger use of Charismatic and Inspirational Leadership among the US plant populations".[39] There were no significant variations in leadership styles among different job categories in either country, a finding which Kucninke attributed to the substantial investments that the company had made in supervisory, management, and leadership development and the sophisticated production processes used by the company that required high levels of expertise within each job category. In particular, the specific surveyed company had a long history of training all of its managerial and non-managerial employees in quality management principles and relying on worker participation, teamwork and joint decision making and accountability. Kucninke noted that while there were country-level differences in culture that influenced perceptions of the participants with regard to leadership style, those differences explained only portion of the variations between the countries and Kucninke suggested that variables other than culture might possibly have a strong impact on leadership scores.

The societal culture in Germany is relatively individualistic with low power distance and this means that, in general, Germans do not place significant importance on titles or status and superiors and subordinates are more likely to be viewed as equals. However, those in positions of leadership within German companies are accorded due respect provided that they are also perceived as someone who is technically capable in the areas over which he or she has responsibility and who is able to provide strong and clear direction to subordinates.[40] Fein also observed that the most successful and effective German leaders have a good sense of priorities and a clear direction for their companies.[41] German leaders do typically delegate tasks and assignments to team members that are technically competent to successfully complete the activities and the expectation is that once delegation occurs the responsible person will be allowed to perform the task or assignment without undue interference or supervision from the leader; however, while subordinates are granted autonomy with respect to carrying out their duties, they are expected to do so in a manner that conforms to rules that have been adopted to promote stability and manage the strong uncertainty avoidance found within Germany's societal culture.[42]

Busch et al. explored German leadership styles from a unique perspective by collecting and analyzing data on the leadership styles of German managers of Chinese companies

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[38] Id.

[39] Id.

[40] World Business Culture, German Management Style.

[41] H. Fein, The DaimlerChrysler Turnaround and German Management Style (2010).

[42] World Business Culture, German Management Style.

operating in Germany.[43] While all of the surveyed companies were Chinese owned, all of the employees who participated in the survey were German and they were asked questions about the leadership styles of both Chinese and German managers within their companies in order for the researchers to make comparisons between them. Interestingly, the researchers created a questionnaire that incorporated four Chinese leadership styles that were based on central dimensions of Chinese culture that had previously been identified by several researchers: Daoistic leadership, Confucianistic leadership, Legalistic leadership and Paternalistic leadership.[44] Busch et al. found that the German employees reacted most positively to two leadership styles perceived more frequently among their German managers, Daostic and Confucianistic leadership, and this meant that German employees had a high level of approval with leaders who possessed the quality to keep a low profile; could adjust themselves to any environment and situation; were gentle and soft while also being persistent and powerful; were perseverant, ambitious and optimistic; appreciated self-examination and corrected mistakes; and shaped the character of followers by role modelling, mentoring and reinforcing. At the same time, the employees had a far less favorable response to the paternalistic leadership style most commonly associated with their Chinese managers, which meant that they disapproved of leaders who expected obedience, insisted on making final decisions on key issues and guarded key information tightly.

§1:4   Management

While US and Japanese management styles have attracted a good deal of attention, notice should also be taken of management styles in other successful countries such as Germany, a nation often touted as Europe's "economic giant" based on its impressive manufacturing output and a per capita export trading volume.[45] Hofstede wrote extensively on how cross-cultural differences might impact attempts to transfer management theories popular in one country to another country with a different societal culture profile. For example, he commented on how well one might expect Drucker's well-known "management by objectives" ("MBO") would be accepted in cultural environments other than the US.[46] Hofstede argued that in order for MBO to be

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[43] R. Busch, R. McMahon, A. Unger, C. May and Y.C. Wang, "A Comparison of Leadership Styles between Chinese and German Managers of Chinese Companies in Germany", Web Journal of Chinese Management Review, 16(2) (May 2013).

[44] See Y. Fan, "A Classification of Chinese Culture", Cross Cultural Management, 7(2) (2000), 3; and A. Unger, R. Busch, Y.C. Wang and C. May, Leadership Styles in China–Development of a Questionnaire for Measuring Chinese Leadership Styles (2011).

[45] V. Glunk, C. Wilderom and R. Ogilvie, "Finding the Key to German-Style Management", International Studies of Management and Organization, 26(3) (1997), 93-108, 93 (noting that during the 1990s 40% of the manufacturing output of the European Community came from Germany and that German exports were, and had been since the 1960s, twice as high, per capita, as Japan).

[46] MBO is based on the principle that individual efforts must be put together to achieve a common goal known to, and accepted by, everyone in the organization and required the completion of the following steps: organizational objectives must be defined at the very top of the hierarchy, such as the board level; management roles and activities should be analyzed so that duties and responsibilities relating to achievement of the objectives can be properly allocated among the individual managers; performance standards should be established; managers and subordinates should agree upon and define specific objectives for the activities of the subordinates; the targets set for each subordinate should be aligned with

successful, there must be a good deal of dialogue between organizational units, and managers and subordinates, regarding objectives, targets and standards, and this assumes that subordinates have sufficient independence and confidence to engage in meaningful negotiations with persons higher in the organizational hierarchy (i.e., small or medium power distance). In addition, MBO assumes that everyone in the organization, subordinates and their managers, is willing to take risks (i.e., weak uncertainty avoidance). With regard to how well MBO might fare in Germany, Hofstede noted that its small power distance should support and welcome dialogue within the organization regarding goals and objectives but that problems might arise with respect to acceptance of risk given that Germany is a much stronger uncertainty avoidance society.[47] Hofstede did point out that MBO could fit well with German small power distance/strong uncertainty avoidance to the extent that mutually agreed upon objectives provide subordinates with direction that alleviates stress while also removing the threat of arbitrary authority exercised by superiors. Hofstede cited studies of the use of MBO in German-speaking countries that illustrated a preference for the elaborate formal information systems suggested by Drucker and an emphasis on group objectives that was consistent with the low individualism values in these countries.[48]

German leaders are uncomfortable with "management by objectives" and instead demand detailed information and analysis before important decisions are made. For example, Fein observed that German managers are rarely satisfied with reports that simply outline progress that has been made toward a particular profit target and want to know "exactly where the figure came from, what has been changed, why this has been changed, and what downside this all has".[49] Fein noted that German managers expect precision and complexity in the reports they receive from subordinates and suggested that this approach, while perhaps seeming tedious in good times, can be particularly effective when companies are struggling and need to engage in painful assessments in order to determine what changes might be needed in current strategies and programs. According to Fein, German companies delegate authority for important decisions to the heads of the departments most impacted by the decision and his or her team members, rather than insisting that such decisions be made at higher levels in the organizational hierarchy.[50]

One commentator has observed that "[t]he German manager concentrates intensely on two objectives: product quality and product service".[51] The main elements of German management culture, as well as the preferred styles of German managers, all evolve

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the larger objectives of the organization; and management information systems should be created to monitor performance and the actual relationship of individual achievement to organizational objectives. G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 58–59. See also P. Drucker, The Practice of Management (1954).

[47] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 58.

[48] Id.

[49] H. Fein, The DaimlerChrysler Turnaround and German Management Style (2010).

[50] Id.

[51] Mongabay, The Culture of German Management (August 1995). For further discussion of German management style, see V. Glunk, C. Wilderom and R. Ogilvie, "Finding the Key to German-Style Management", International Studies of Management and Organization, 26(3) (1997), 93.

around the desire to design and manufacture high quality products and provide customers with extraordinary responsiveness and dedication. In contrast to managers in the US, German managers are not only interested in the financial success of their product lines but also keenly follow production methods and make it a priority to maintain good relations with workers in order to create a culture of cooperation and communication that is thought to be necessary in order to continuous create and product good products. The interest in production is not surprising given that German firms tend to draw on engineers and technicians for fill management positions and these persons necessarily bring a strong background in manufacturing, design and service to their managerial duties. In fact, while German universities had long offered courses in business administration the notion that management should be treated as a separate science was strongly resisted and courses in management techniques such as those taught in US style MBA programs were rarely available in Germany until the 1980s. One commentator explained that "Germans believed that management as a separate discipline bred selfishness, disloyalty, bureaucratic maneuvering, short-term thinking, and a dangerous tendency to neglect quality production" and that when management courses were finally introduced in Germany they tended to focus on reinforcing, rather than changing, traditional German management practices.[52]

The product- and quality-orientation that prevails among German firms is supported by reliance on elaborate vocational training systems, "respect for competence" and the use of formalized production management systems and procedures. These preferences are based on the pursuit of thoroughness and consistency and a production culture that is serious and focused on high quality workmanship, innovation and stable relations between management and employees. German management style has deep historical roots, going back to medieval guilds and the merchant traditions formed centuries ago; however, it is also geared to meet the intense challenges of global competition through rigorous pursuit of product quality and product service. Interestingly, it is often commented that German firms are not interested in competing based on price, unless absolutely necessary, and are committed to creating and maintaining competitive advantage based on excellent products and services. Intense focus on quality is accompanied by pursuit of significant market share in specific niches, as can be seen in the actions of German automobile manufacturers.

Vocational training has a long history in Germany and the vocational training system in Germany is routinely proclaimed to be the best in Europe with qualifications in hundreds of areas available and provision for "on the job" training that attracts a majority of German industrial workers. The system is closely connected to employment opportunities in the German manufacturing sector, which reflects the close working relationship between government, employers' associations and trade unions. Technical knowledge and engineering skills are the hallmarks of the vocational training system and it has been estimated that about two-thirds of German supervisors hold a "meister certificate" that signifies specialized training in topics that promote technical workmanship such as

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[52] Mongabay, The Culture of German Management (August 1995). For further discussion of German management style, see V. Glunk, C. Wilderom and R. Ogilvie, "Finding the Key to German-Style Management", International Studies of Management and Organization, 26(3) (1997), 93.

production automation, logistics, organizational methodology and leadership. Once they have completed their initial qualification German managers and technical workers are involved in continuous learning experiences in order to allow them to cope with new procedures, tools and techniques. The expert knowledge learned through the vocational training system, along with the quality of their skills and experience, are the key criteria in identifying and selecting candidates for managerial positions in Germany.

Specific elements of the "respect for competence" found in German business culture include workmanship, wide spans of control, loyalty, an emphasis on quality and innovation and effective labor relations. The respect for high quality workmanship and technical and professional expertise has already been noted above and the training requirements imposed on managers and workers ultimately allow German firms to adopt relatively wide spans of control in their organizational structures on the premise that skilled workers do not need supervision from staff personnel that create unnecessary hierarchical levels in those structures. As a result, German workers enjoy much higher levels of autonomy and job discretion than their counterparts in other countries. Another important characteristic of German managers is their tendency to remain with one firm throughout their career, which means that they build an intense loyalty to their firm and make decisions based on what will be best for the long-term prospects of the firm. One unusual byproduct of the long-term commitment of German managers is the practice of allowing managers to select and train their own replacements. This type of approach is said to enhance continuity of decision making and reduce the stress associated with uncertainty about succession issues. In addition, since the designated replacement is required to "shadow" his or her predecessor before assuming the new role once the change is finally implemented the new manager has a much higher level of confidence. Finally, the respect for competence throughout the organizational structure of the German enterprise based on the strenuous training provided to both managers and workers provides the underpinning of an effective labor relations system that includes meaningful participation by non-executive directors on management boards.

While the high level of training provided for German workers permits greater autonomy and individual discretion it is nonetheless apparent that formalized, hands-on production management plays an important role in ensuring that finished products meet the stringent quality standards found in Germany. German managers rely heavily on formal job descriptions, procedures and instructions and German workers understand that reliance on rules and regulations, rather than improvisation, is expected of them. This type of formality is thought to be the best way to reduce uncertainties on the production floor and ensure that production deadlines will be meant. The formality is accepted and understood by workers as being necessary to maintain quality control and its effect is mitigated a great deal by the opportunities provided to workers to receive feedback on their performance, participate in discussions regarding goal setting and contribute ideas to enhance productivity based on their own experiences and training.

In their survey of relationships between societal culture and leadership styles in various countries around the world, Taleghani et al. Found that German managers rated themselves among the high in Europe with respect to "setting direction for the future"

and willing and ability to embrace new ideas and perspectives; however, before moving forward German managers proceeded with diligence and caution weighing the new ideas against past practices and engaging in in-depth study to ensure that they had considered the long-range implications of decisions regarding the future.[53] German managers were technically-oriented, less likely to take a short-term view, and placed great value on tapping into current expertise and knowledge gained from past experience to minimize risk. The researchers found that management styles and relationships were relatively formal in Germany—based more on role and responsibility within the organizational hierarchy than on personal magnetism—and that German managers were typically comfortable in their leadership roles and willing to assume command. Leadership styles among the German managers tended to be understated and subdued and managers maintained distance and acted more aloof than their counterparts in other European countries such as France.

According to Aguilera and Jackson, German managers often pursue and achieve advanced degrees in technical fields such as engineering or chemistry and Aguilera and Jackson argued that their educational background caused German managers to adopt a managerial ideology that stressed achievement of technical excellence[54] and placed more emphasis on functional orientations than financial interests.[55] Aguilera and Jackson also noted that decision making among German companies has traditionally been based on "principles of consensus that foster managerial commitment to organizational relationships and constituencies".[56]

In March 2014, Germany's Labor Ministry, following the examples of major German companies such as Volkswagen and Deutsche Telekom, issued guidelines to its managers prohibiting them from calling or e-mailing staff outside of business hours except in emergencies, a move that was intended to reduce undue stress for staffers who had previously been constantly on call.[57]

§1:5   Organizational design

The traditional form of organizational structure among German companies has been quite hierarchical with the duties and responsibilities of each role or job within the hierarchy clearly and strongly defined. The preference for defined roles leads to situations where employees are reluctant to deviate beyond what is expected of them and employees tend to simply follow the rules and directives established and communicated by senior management. The hierarchical organizational structures are accompanied by a "top-down" chain of command in which the major decisions are made by senior management and passed down to lower levels of the hierarchy for execution. Senior management makes the strategic decisions and middle and lower management are responsible for day-

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[53] G. Taleghani, D. Salmani and A. Taatian, "Survey of Leadership Styles in Different Cultures", Iranian Journal of Management Studies, 33(3) (2010), 91, 102-103.

[54] P. Lawrence, Managers and Management in Germany (1980).

[55] R. Aguilera and G. Jackson, "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants", Academy of Management Review, 28(3) (2003), 447, 458.

[56] Id.

[57] Germany Bans Managers from Calling or E-Mailing Staff after Work Hours (March 29, 2014).

to-day operations. However, "teamwork" and "consensus-building" are important factors in making and implementing decisions within German companies. As explained by Gorrill, the desire among Germans to achieve their own goals and successes is coupled with a keen sense of responsibility for the communal good and this explains why business decisions are based not only on financial factors but also on how they might impact employees and the community in which the company is operating.[58] The desire to reach consensus also means that it takes longer to reach decisions in German firms.

Germany has been famously described as the prototype for the "well-oiled machine" included in the matrix of culture-based profiles for organizational structures developed by Stevens, Hofstede and others.[59] Influenced by relatively small power distance and strong uncertainty avoidance, Germany and countries with Germanic cultural characteristics tend to prefer organizational structures that are capable of operating smoothly and efficiently based on adherence to clear rules and procedures. Leaders of the "machine" are respected for their expertise in the knowledge areas applicable to the organization's tasks activities; however, their main job is to ensure that solutions to work issues are readily available in organizational rules and procedures. In other words, the guiding principle was "management by exception" with the expectation that the formal rules and procedures would provide most of the answers. Work is carried out in accordance with a clearly defined plan that is continuously reviewed and monitored and success is defined as meeting the performance goals outline in the plan, from a group perspective, and as development of competence, from an individual perspective. As explained by Wursten: "In principle, people in these countries feel autonomous and want to perform tasks independently. The condition is that all uncertainty around expectations with respect to task completion and task-description are reduced. Clarity in the structure and explicit procedures form the core of the internal discussion about the organization."[60]

Child and Kieser reviewed the research and commentaries on the attitudes and preferences of German managers and noted that "[w]ithin the Western world, the Germans have often been singled out for having a supposedly greater respect for authority and an inclination towards directive rather than participative relationships".[61] In their own studies, Child and Kieser found that German managers had a high regard and respect for authority, more so than British managers, and thus tended to be more directive than the British. Child and Kieser conducted an analysis and comparison of similar German and British firms and concluded that German firms were more centralized than British firms. For example, with respect to higher level decisions managers in German and British firms tended to be fairly similar; however, with respect to operational decisions (i.e., marketing, production, purchasing and some personnel decisions), Germans were more likely to take decisions to a higher level than the British. Another

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[58] J. Gorrill, Doing Business In Germany: Communicaid (February 16, 2006).

[59] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad"," Organization Dynamics, 9 (1980), 42-63, 60.

[60] H. Wursten, Mental images: The influence of culture on (economic) policy, http://unpan1.un.org/intradoc/groups/public/documents/un/unpan002455.pdf

[61] J. Child and A. Kieser, "Organizational and managerial roles in British and West German Companies: An examination of the culture-free thesis" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 455-477, 457.

group of researchers found indications that "general features of German culture" were likely to be found in the organizational structure of German firms and noted that German managers tend to adopt "the traditional and culturally ingrained view of organizations as authority structures, requiring explicit, stable and strong hierarchical relationships with 'ultimate' authority at the top".[62] Hartmann also noted that German managers were extremely concerned with authority and that their authority was based not on knowledge and technical ability but on value-oriented elements such as "charisma, calling or trusteeship" that also led German executives to see themselves as being distinct from, and superior to, their subordinate departmental managers.[63]

In Horovitz's cross-country study and comparative analysis of managerial "control practices" in France, Britain and Germany, he identified the following practices for Germany, many of which contrasted quite sharply from those that were being used in Britain at the time[64]:

- At the top managerial levels the controls were very detailed and it was required that all variances be reported to top management rather than just highlights and exceptions.
- A good deal of emphasis was placed on production controls with a particular focus on achieving and maintaining operational efficiencies.
- Centralization of control was quite important and achieved through reliance on a large central office staff that was involved in performance measurement, variance analysis and compilation of detailed quantitative reports for senior executives.
- Controls were heavily used as policing and surveillance tools.

Planning practices among German firms were aligned with their preferences regarding controls and focused more on operation rather than strategic issues. The planning horizon was shorter (i.e., three years) than among British firms and the planning process was overseen by the controller's office at the corporate level as part of that office's broader responsibilities for budgeting and controlling.[65] In line with great importance they placed on production controls, German firms emphasized detailed short-term planning including preparation and use of "stringent and detailed one-year production plans . . . [with] . . . key objectives, tasks, responsibilities and deadlines".[66]

Preferences regarding organizational structure in Germany were closely aligned with the dominant managerial control practices and Horovitz noted that "hyper-specialization" was perhaps the best way to describe how German firms were organized, even at the level of the executive suite. Among the surveyed firms from Germany, half of them followed

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[62] Id. at 458 (citing A. Ruedi and P. Lawrence, "Organizations in Two Cultures" in J. Lorsch and P. Lawrence (Eds.), Studies in Organization Design (Homewood, IL: Irwin & Dorsey, 1970), 81).

[63] H. Hartmann, Authority and Organization in German Management (Princeton, NJ: Princeton University Press, 1959).

[64] J. Horovitz, "Management Control in France, Great Britain and Germany" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 445-454, 446.

[65] See J. Horovitz, "Management Control in France, Great Britain and Germany" in T. Weinshall, Societal culture and management (New York: Walter de Gruyter, 1993), 445-454, 446.

[66] Id. at 450.

a function-driven structure and the other half used divisions built around products and/or markets and regardless of the structure chosen the "chief executive" was generally a team of functionally specialized executives. Horovitz noted that delegation of authority below the central staff level was uncommon in Germany and that the central staff retained centralized control over a number of decisions, such as procurement, and imposed tight and frequent controls in the production area. The central staff also provided extensive support to each of the divisions. The "executive teams" of German firms meant frequently, generally once a week, to coordinate functional specialization and Horovitz concluded that with respect to German enterprises "[t]he overall impression is not one of flexibility, but of operational efficiency".[67]

Peterson and Garrison argued that German companies were highly structured and that great deference was given to those in authority, thus creating an organizational and managerial structure characterized by a larger number of organizational levels with close supervision; many formal rules and regulations, including highly specific job descriptions and requirements; highly centralized decision-making; and a strong emphasis on position-based authority.[68] Gorrill agreed that German business culture followed set rules and had a well-defined and strictly observed hierarchy with clear responsibilities and distinctions between roles and departments, low degrees of flexibility and spontaneity, and rank and status allocated on the basis of individual achievement and expertise in a given field.[69] Gorrill also observed that decision-making in Germany relies heavily on objective facts, logic and analysis of information, rather than on intuition and opinions collected from well-developed personal networks.

Hofstede described an unpublished work of Stevens describing the results of his survey of graduate business students from three different European countries—France, Germany and Great Britain—that included questions regarding their ideas about how to deal with issues in a case study that involved a conflict between the product development and sales departments at a hypothetical firm.[70] Stevens found that the Germans pointed to a lack of written policies to guide each of the departments and recommended that such policies be drafted and based on this feedback, as well as different responses from the students from the two other countries, proposed a preferred "implicit model" of organizational structure for German companies based on the low power distance and high uncertainty avoidance in the societal level culture of that country that Stevens referred to as a "well-oiled machine" that was efficiently directed by formal procedures although not necessarily centralized. Hofstede noted that this was consistent with the views of the well-known German management theorist Max Weber, whose theory of bureaucracy included a high level of formalization in management systems but with rules that were intended to protect persons at lower levels in the hierarchical structure from attempts by their superior to

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[67] Id. at 448.

[68] R. Peterson and J. Garrison, "Culture As An Intervening Variable In the Technology Organization Structure Relationship", The Academy of Management Journal, XIV(1) (1971), 139 (as cited in E. Arnaud, J. Camp, M. DeAngelo, K. Parsons, and J. Sturm, A Business Outtake On Germany: Cultural, Organizational, and Management Characteristics (August 11, 2010)).

[69] J. Gorrill, Doing Business In Germany: Communicaid (February 16, 2006).

[70] G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 60. Hofstede was referring to the work of O. Stevens at INSTEAD.

abuse their power.[71] Studies performed by Schneider and Barsoux appeared to confirm the Hofstede/Stevens conceptual model and they suggested that the "well-oiled machine" structure was based on high formalization but low hierarchy and had specific characteristics that included decentralized decision making; narrow span of control; specialist, technical competence; discretion limited by expertise; strong role of staff "experts"; top management team; industry and company knowledge; organized by function; compartmentalized (i.e., "chimneys" or "silos"); coordination through routines and rules; structural solutions; throughput control; and emphasis on efficiency.[72] Taken together, these studies argued for the proposition that Germans understand and accept that activities and relationships should be carried out in accordance with formalized rules and procedures and this reduces the need for a tall hierarchy since everyone knows their place and what is expected of them.

Mintzberg developed a typology of "preferred configurations of organizations" that corresponded with the Hofstede/Stevens model and could also be fit into a matrix created using the uncertainty avoidance and power distance dimensions.[73] One of his structural types, referred to as the "professional bureaucracy", corresponded to the "well-oiled machine" model and was suitable for low power distance/high uncertainty avoidance societies such as Germany and for firms that employed relatively high skilled workers producing complex products. The key part of the organization for this structural type was the operating core, the people who actually performed the work, and the preferred coordination mechanism was standardization of skills through training. A final example of "implicit models of organization" that closely followed the principles of Stevens, Hofstede and Mintzberg and used all of the dimensions of societal culture included in the Hofstede framework was offered by the ITIM Culture and Management Consultancy, which suggested that German companies would rely on a "well-oiled machine model" that was based on order, not much hierarchy and a carefully balanced set of rules and procedures.[74]

§1:6   Organizational culture

German societal culture has also been characterized as high on masculinity, leading Ardichvili and Kucninke to suggest that Germans are assertive and competitive and value success in the workplace over things such as quality of life, warm personal relationship

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[71] According to Weber's theory of bureaucracy persons in a position of authority within the organizational structure did not have power in their own right but could give directions that were consistent with the authority vested in their position in the formal written rules and procedures that described the approved management systems for the firm. In short, as Hofstede said "the power is in the role, not in the person (small Power Distance)". G. Hofstede, "Motivation, Leadership and Organization: Do American Theories Apply Abroad", Organization Dynamics, 9 (1980), 42, 60.
[72] S. Schneider and J.-L. Barsoux, Managing Across Cultures (2nd Ed.) (2002).
[73] The framework was initially presented and described in the early 1980s. See H. Mintzberg, Structures in Fives: Designing Effective Organizations (1983).
[74] For further discussion, see H. Wursten, Culture and Change Management, ITIM Culture and Management Consultancy.

and service.[75] Gorrill similarly argued that the importance of interpersonal relationships in Germany is not strong and that Germans tend to be very task-oriented and generally create and observe strict separation between their private and life and work.[76]

In 2006 Andrijevskaja and Vadi published the results of their exhaustive survey of available theoretical research and empirical studies of organizational culture in Germany.[77] They began by noting that at the beginning of the 1980s, organizational culture was seen as an effective management tool in Germany and companies were adopting strategies to create the most effective culture including introduction of symbols and rituals and pronouncements regarding organizational values and norms. However, empirical studies of these efforts indicated that they were producing very limited positive results as managerial tools and they were eventually subjected to widespread criticism on ethical grounds and as being an oversimplification of the nature of organizational culture. Studies of organizational values and culture among German companies that were released during the 1990s included various critiques including a tendency to be product-led rather than market-oriented and a lack of entrepreneurial spirit, and it was popular at that time to characterize German organizational culture as a "well-oiled machine" that valued order as a means for coping with the high uncertainty avoidance said to be prevalent among German employees.[78]

Andrijevskaja and Vadi noted that researchers that had analyzed ethnocentric German companies working in traditional German business sectors such as iron and steel, machinery, mechanical engineering, electrical engineering, precision instruments and optical goods, electronics, construction, chemicals, banking and insurance had repeatedly found evidence of the following organizational culture features: an emphasis on formal rules and procedures, a desire for stability and security, and a strong belief in the company's own elaborated and tested methods. Several of those researchers had also concluded that organizational culture was an important coordination tool for vertical communications in the German companies they had studied, but was less important on the horizontal organizational level.[79] Opresnik compared organizational culture in the US and Germany, a popular topic among researchers given the interest in the impact of American-based theories of organizational culture on German companies[80], and

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[75] A. Ardichvili and K. Kuchinke, "Leadership Styles and Cultural Values Among Managers and Subordinates: A Comparative Study of Four Countries of the Former Soviet Union, Germany, and the US", Human Resource Development International, 5(1) (2002), 99.

[76] J. Gorrill, Doing Business In Germany: Communicaid (February 16, 2006).

[77] J. Andrijevskaja and M. Vadi, "Measuring Organizational Culture in Germany", in National and International Aspects of Organizational Culture (2006), 224.

[78] See, e.g., C. Randlesome, The Business Culture in Germany: Portrait of a Power House (1990), 1; and G. Hofstede, Culture and Organizations: Software of the Mind (1994).

[79] W. Ruigrok and L. Achtenhagen, "Organizational Culture and the Transformation towards New Forms of Organizing", European Journal of Work and Organizational Psychology, 8(4) (1999), 521; and B.-L. Gunnarsson, "Discourse: Organizations and National Cultures", Discourse Studies, 2(1) (2000), 5.

[80] Researchers such as Albach had studied the impact of introducing certain American organizational culture values into German organizations including motivation, teamwork, innovation, intensive communication with clients, suppliers and internal partners, self-accomplishment and ethical norms and values. See H. Albach, Wertewandel deutscher Manager. Wertewandel und Unternehmensziele im Wandel der Zeit (1994), 1, 20.

concluded that German organizational culture was characterized by strong rituals and orientation on past success, inflexibility and resistance to change and centralization, all of which made it much more difficult for German companies to innovate by taking risks and striking out on new paths.[81]

One particular feature of traditional German organizational culture that interested Andrijevskaja and Vadi was the orientation toward product quality and performance rather than on relationships, which meant that the emotional bonds among were employees were not strong. Eckstein explained that collectivism in Germany was focused on the familial level, rather than the workplace, and that Germans tended to create and maintain strict separation between private relationships with family and friends on the one hand and their working lives on the other hand.[82] According to Eckstein, German managers realized and respected employee attitudes and thus tended to avoid injecting excessive emotional involvement into the organizational processes of their companies. Andrijevskaja and Vadi accompanied their survey of prior research with their own study of organizational culture among 15 German companies and also found that those companies tended to promote orientation to product quality and performance rather than to relationships, thus creating an organizational culture in which employees were strongly oriented to completion of their tasks without strong emotional ties to their companies and their co-workers.

Trompenaars believed that "[o]rganizational culture is shaped not only by technologies and markets, but by the culture preferences of leaders and employees" and noted that local branches of international companies, while adopting the same logo and reporting procedures, are often "fundamentally different in the logic of their structure and the meanings they bring to shared activity" as a result of the influence of local culture.[83] Working with his colleague, they built their own "database of corporate culture" based on responses received from 42 countries to questionnaires that "deal[t] with general concepts of egalitarianism versus hierarchy, degrees of formality, different forms of conflict resolution, learning and so on" and asked respondents to "choose between four possible descriptions of their company" that corresponded to the four types of organizational cultures in the model suggested by Trompenaars.[84] According to Trompenaars, the highest score for Eiffel Towers was found in Germany.

The Eiffel Tower type of organizational culture was "role-oriented" and associated with high scores for hierarchy and task-orientation.[85] According to Trompenaars, the Eiffel Tower type was representative of the bureaucratic division of labor so often found in the "Western world", structure was more important than its function and activities and

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[81] J. Andrijevskaja and M. Vadi, "Measuring Organizational Culture in Germany", in National and International Aspects of Organizational Culture (2006), 224, 229-230.

[82] J. Eckstein, Organisationskultur in Ostdeutscland (1997), 134.

[83] F. Trompenaars and C. Hampden-Turner, Riding the Waves of Culture: Understanding Cultural Diversity in Global Business (2nd Ed) (1998), 161.

[84] Id. at 182.

[85] The descriptions and quotes in this paragraph are taken from F. Trompenaars and C. Hampden-Turner, Riding the Waves of Culture: Understanding Cultural Diversity in Global Business (2nd Ed) (1998), 170-177.

relationships were organized in a way that they described as "steep, symmetrical, narrow at the top and broad at the base, stable, rigid and robust". In the Eiffel Tower relationships are specific and status is ascribed to roles, which means that the authority associated with a role is impossible to challenge. Trompenaars explained that "bureaucracy in the Eiffel Tower is a depersonalized, rational-legal system in which everyone is subordinate to local rules and those rules prescribe a hierarchy to uphold and enforce them". Professional qualifications are important for advance in Eiffel Tower cultures. Personal relationships are rejected in the Eiffel Tower out of concern that they might warp judgments, create favoritism, increase the need to make exceptions to rules and break down the desired clear boundaries regarding roles and responsibilities. Each job in the Eiffel Tower "is described, rated for its difficulty, complexity and responsibility, and has a salary attached to it". Organizational members crave precision, order and predictability and when change is needed it occurs through changing rules and the formal job requirements for employees, which means that Eiffel Tower cultures have difficulty with turbulent environments. Not surprisingly, conflict is seen as irrational—a pathological challenge to orderly procedures—and is dealt with through even more formal rules and procedures.

§1:7   Strategic planning

Gorrill observed that Germans pay close attention to setting targets and measuring progress toward those targets through the use of precise timetables.[86] Horowitz studied planning practices among German firms as part of a cross-cultural comparative study that also involved companies from France and the UK and found that they did generally engage in some form of long-term planning using a "bottom-up" approach similar to British firms; however, Horowitz identified substantial differences between planning in Britain and Germany that could be explained in large part by the differences between those countries with respect to control practices and organization patterns.[87] For example, the annual planning process in Germany was a bit shorter than in Britain, extending over a four month period, and covered a short planning period (i.e., three years) and focused more on operational rather than strategic issues.[88] Rather than creating a separate planning department, the planning process for German firms generally fell under the direction of the controller's office at the corporate level which oversaw long-range planning, budgeting and controlling. As a result, less people were involved in planning in Germany than in Britain. To the extent that standard manuals were used in the planning process they were usually limited to guidance on preparation of financial forecasts. The main focus of this process was the finalization of an annual budget and while long-range plans were usually created along with the budget they sometimes were not prepared until after the budget was completed. In line with great importance they placed on production controls, German firms placed more emphasis on detailed short-

[86] J. Gorrill, Doing Business In Germany: Communicaid (February 16, 2006).
[87] J. Horovitz, "Management Control in France, Great Britain and Germany", in T. Weinshall, Societal Culture and Management (1993), 445, 449.
[88] The emphasis on operational issues was consistent with the intense focus on achieving and maintaining operational efficiencies and establishing production controls found among German firms. See J. Horovitz, "Management Control in France, Great Britain and Germany", in T. Weinshall, Societal Culture and Management (1993), 445, 446.

term planning than British firms and this included preparation and use of "stringent and detailed one-year production plans . . . [with] . . . key objectives, tasks, responsibilities and deadlines".[89]

Recklies examined the strategic planning processes of German savings banks and credit co-operatives and observed that the regulators that oversaw the operations of these institutions established strategic objectives for those institutions in a way that removed a number of common planning activities (e.g., analysis of the external environment and assessment of the organisation's capabilities) from those institutions.[90] As a result, strategic planning within the savings banks and credit co-operatives focused on two main objectives: adopting strategies to meet the goals set by the regulators and designing and implementing procedures for measuring progress toward those goals. Recklies found that smaller institutions, usually credit co-operatives, often lacked the resources to establish a specialized strategic planning department or recruit a full-time professional specialist for strategic planning and that in these institutions strategic planning was typically done by one or more persons in addition to their main tasks and that in some cases it was done only once a year. Larger institutions, typically savings banks, had more resources to devote to strategic planning and responsibility for planning, economic analysis and sales controls was usually assigned by the board of directors to a "directors secretariat office" that performed a number of top management support functions. Recklies noted that managers at both credit co-operatives and savings banks in Germany often had a lower educational and qualification profile than managers at other types of German retail banks and that this meant that there was a general lack of knowledge among the credit co-operatives and savings banks regarding strategy, strategy development and tools and models for strategic planning and that directors with appropriate qualifications often became personally involved in planning or sought support from external consultants.

§1:8   Governance

The system of corporate governance used in Germany and in other so-called "Germanic" countries sharing similar historical and cultural roots—the Netherlands, Switzerland, Sweden and Austria—has been characterized as relatively oligarchic and focused on long-term industrial strategies supported by stable capital investment, robust governance procedures and enduring network relationships among key stakeholders such as shareholders, families and banks.[91] This type of system has facilitated success of German firms in industries that require long-term investment and creating and maintenance of high skill levels (e.g., luxury automobiles, precision instruments, chemicals and engineering). However, the model has been less successful in circumstances where flexibility is needed since the difficulties associated with modifying deep, long-standing

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[89] Id. at 450. Horowitz reported that "in Britain short-run plans . . . at the subsidiary level [were] essentially budgets". Id.

[90] O. Recklies, "Practice of Strategic Planning in German Retail Banks", Economics and Organization of Enterprise, 3 (2010), 39.

[91] The model typically associated with the Germanic countries has been described in a variety of ways including the insider, civil law, blockholder, bank-oriented, stakeholder-centered, coordinated or "Rhineland" model. R. Aguilera and G. Jackson, "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants", Academy of Management Review, 28(3) (2003), 447.

relationships among different stakeholders slow the process of adjusting to changes in labor and product markets and creating or entering new businesses and industries.[92] The prevailing concept of the firm in the Germanic countries is "institutional", which means that firms are seen as autonomous economic units created and supported by strong and complex coalitions of diverse stakeholders including shareholders, managers, employees, credit providers (i.e., banks), suppliers and customers. Within this group of stakeholders the industrial banks are generally the major players and their role in providing capital tends to reduce the importance of stock and bond markets and thus the influence of outside investors.

Germany's corporate governance structure, which is based on a system referred to as "co-determination", is quite different from the structures observed in the US, the UK and Japan.[93] Germany law provides that companies with more than a specified number of employees must have two boards: a "supervisory" board and a "management" board. The supervisory board is the controlling body, much like the board of directors in the US, and designated percentages of the membership of that board are elected by the shareholders and employees, respectively. Shareholder representatives on the supervisory board are elected at the shareholders' general meeting and employee representatives are drawn both from the company's own workforce and from the trade unions involved in representing the interests of the company's employees. While the members of the supervisory board are elected by different constituencies, all of them are required and expected to represent the interests of the company as a whole and rules relating to voting by the supervisory board allocate tie-breaking authority to one of the directors elected by the shareholders. Supervisory boards in Germany are typically a little larger than the boards in the US and the UK but smaller than boards in Japan. The management board is appointed by the supervisory board and no person can be a member of both boards. As the name implies, the management board "manages" the day-to-day operations of the company under the supervision of the supervisory board. Management boards are smaller than boards in the US and the UK.

At least during the 1970s to 1990s, an interesting overlay to the German corporate governance system was the tremendous influence of German banks as large shareholders of German corporations. Data from a 1978 study conducted by the German Monopoly Commission indicated that, taking into account proxies that banks obtained for shares that their customers held "on deposit" with the banks, banks at that time controlled the votes of nearly 40% of the equity of Germany's top 100 corporations and were represented on two-thirds of the supervisory boards of those corporations.[94] This so-called "hausbank" system thus included significant long-term involvement of German banks in the corporate governance of the firms to which they provided capital and provided the foundation for close ties between those banks and German industry. The

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[92] Portions of the description in this section is adapted from F. Toonsi, Cultures of Control: International Corporate Governance, QFinance.

[93] The discussion in this section is based on F. Allen and D. Gale, Comparative Financial Systems: A Survey, 26-27. The article also appears as F. Allen and D. Gale, "Comparative Financial Systems: A Survey, in A. Boot", S. Bhattacharya and A. Thakor (Eds.), Credit, Intermediation and the Macroeconomy (2004), 699.

[94] F. Allen and D. Gale, Comparative Financial Systems: A Survey, 35.

high concentration of ownership of German banks in German corporations has been thought to be an effective tool in monitoring the activities of the managers of those firms to ensure they were acting to maximize shareholder value and, in fact, there is evidence that German firms with a higher proportion of equity controlled by banks have better performance.[95] In addition, strong ties with their banks allowed some German companies to avoid liquidity constraints that might undermine their strategic plans.[96]

Germany, like Japan, has traditionally had a bank-based financial system in which banks and other financial institutions are the primary suppliers of capital to businesses and do so by collecting funds from individuals, placing them into accounts and then making those funds available to firms through loans. Aguilera and Jackson reiterated some of the well-known descriptions of bank-based systems including close relationships between banks and firms, small and underdeveloped capital markets that reinforce higher firm dependence on debt, close capital monitoring and contingent control of borrowers by banks and, finally, long-term commitment by capital providers to firms as a result of the terms upon which the capital is made available to those firms.[97]

Firm governance in Germany, at least among the larger companies, has long been dominated by reliance on "interfirm networks" that typically include both "capital ties" such as ownership and credit linkages and board representation, and non-financial links such as supplier relationships. Interfirm networks in Germany, which have long been encouraged by German competition laws, reinforce the commitment of capital to enterprises by making exit more costly and tend to reduce external influences and increase the importance of the strategic interests of business partners which are pursued through corporate governance mechanisms such as interlocking board directorates which tend to increase the propensity of partners to cooperate.[98]

§1:9   Finance

Securities markets in Germany are separated by law into two different markets that differ in terms of their approach to regulation of trading, listing and ongoing obligations.[99] The first market is the "Regulated Market", which is the most regulated market in terms of listing requirements and ongoing obligations, and the second market is the "Regulated Unofficial Market". The segmentation into two markets applies to all of the stock exchanges in Germany, which include multiple stock exchanges based in various

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[95] Id. (citing J. Cable, "Capital Market Information and Industrial Performance", Economic Journal, 95 (1985), 118; and G. Gorton and F. Schmid, "Universal Banking and the Performance of German Firms", Journal of Financial Economics, 58 (2000), 29).

[96] F. Allen and D. Gale, Comparative Financial Systems: A Survey, 35 (citing J. Elston, Firm Ownership Structure and Investment: Theory and Evidence from German Panel Data, Unpublished Manuscript (1993)).

[97] R. Aguilera and G. Jackson, "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants", Academy of Management Review, 28(3) (2003), 447, 453.

[98] Id. at 454.

[99] Portions of the discussion of the discussion of securities regulation in Germany in this section are adapted from M. Kurth and O. Rothley, "Securities Law in Germany" in International Securities Law Handbook (3rd Edition) (The Netherlands: Kluwer Law International, 2010).

financial centers (the Frankfurt Stock Exchange is the main stock exchange in Germany), the electronic stock exchange "Eurex" for futures transactions, a commodities exchange in Hannover and energy exchanges in Frankfurt and Leipzig. Each stock exchange is regulated and supervised by an exchange supervisory authority in the federal state where the stock exchange is located and such authorities carry out their supervisorial obligations in accordance with the provisions of the federal Stock Exchange Act, which calls for authorities to regulate and oversee the internal organization of stock exchanges, the admission of banks and other financial institutions, the listing of securities and the proper conduct of trading and settlement of securities transactions.

National oversight of all German securities markets and providers of financial and securities trading services is provided by the Federal Financial Supervisory Authority ("BaFin"). BaFin itself is not a listing authority; however, it has the regulatory power to approve the prospectuses that are required in order for listings to occur and also supervises trading activities on the various stock exchanges. In addition, BaFin has responsibility for ensuring that German securities markets, and the participants in those markets, abide by applicable legal provisions relating to matters such as prohibitions on insider trading, prospectus requirements, disclosure of financial and price sensitive information and public takeover law. Befitting its role with respect to regulation and oversight, BaFin has been vested with authority to conduct investigations, require disclosure of documents and/or information, prescribe appropriate remedies in case of non-compliance and impose administrative fines in certain cases of non-compliance. In cases where misconduct raises issues of criminal sanctions BaFin is permitted to forward such cases to the appropriate prosecutorial authorities.

The operation of securities markets in Germany is subject to a wide range of laws and regulations including the following:

- The Stock Exchange Act sets out basic principles regarding the organizational of stock exchanges and other securities markets and the trading and list of securities.
- The Stock Exchange Admission Regulation sets out listing requirements, listing procedures and disclosure obligations for securities for which an application for admission to the Regulated Market has been filed or will be filed.
- The Rules of Exchange regulate the internal organization of the respective stock exchange including details regarding listing procedures, conduct of trades and publication of all information regarding prices and volumes. The Rules for Regulated Unofficial Markets serve the same purpose with respect to Regulated Unofficial Markets.
- The Investment Act regulates the distribution and sale of interests, participations and shares in domestic and foreign investment funds.
- The German Banking Act includes the statutory framework for the German banking and financial services systems and focuses on protection of creditors and bank depositors.
- The Securities Trading Act focuses on the regulation of trading with securities, financial instruments, futures, derivatives and similar financial products. The Act addresses a number of important areas such as disclosure of changes of interests in

stock of listed corporations, preparation and distribution of annual and quarterly financial reports, proxy and voting procedures and insider trading.

Other statutes and regulations address prospectus requirements and procedural rules and publication requirements apply to acquisitions and public takeover offers.

Nuechterlein reported that as of the late 1990s the total amount of venture capital investment in Germany was about $4 billion, which was roughly equivalent to the amount of venture capital invested in the US in just a single calendar quarter in 1998, and observed that "[i]n Germany, the commercial banks, insurance companies, and venture capital firms that invest in start-ups historically have had limited success".[100] Nuechterlein estimated that about 7% of the venture capital investment was made in start-ups and that less than 15% was invested in high technology companies. At that time, the bulk of all venture capital investment 3in Germany, just below 60%, was provided by banks and their preference was to provide support to expansion stage companies. According to Nuechterlein, the primary challenges for German entrepreneurs up to that time included "excessive government regulation, relatively high capital gains taxes, high labor costs, inflexible labor laws (supported by powerful labor unions) that limit the ability to hire and fire employees and a general political concern with protecting workers from layoffs, inadequate exit mechanisms for investors, a lack of management talent to nurture early stage companies, a dearth of employees willing to leave the safety of well-paid jobs with large German companies to join a start-up (in part because of the stigma associated with failure in Germany), and an underdeveloped entrepreneurial culture".[101] Another factor that differentiated Germany venture capital activities from those in the US and the UK was the historical preference in German capital markets for bonds over stocks, which limited the availability of public offerings as exit strategies for investors in German portfolio companies and pushed those companies toward acquisitions by other firms as a means of satisfying the liquidity needs of their investors.

Financing—venture capital and otherwise—is a significant issue and challenge for technology-focused start-ups in Germany. The good news is that venture capital investors provided $226 million in funding to Berlin-based companies in 2010, a 164% increase over the prior year, demonstrating a level of interest that stood out in an otherwise gloomy economic environment which had caused venture capital investment across Europe to remain flat since the beginning of the global financial crisis.[102] However, when Deutsch Bank compared various countries with respect to venture capital investment as a percentage of GDP in 2012, Germany's .02% was well behind the .17% figure in the US and also trailed, albeit by much smaller margins, other European countries such as France (.03%), the Netherlands (.03%), Sweden (.05%) and the UK (.04%).[103] Commentators have noted, also based on 2012 figures, that when measured on

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[100] J. Nuechterlein, International Venture Capital: The Role of Start-Up Financing in the United States, Europe and Asia (1999), 10-11.
[101] Id. at 10.
[102] E. Westervelt, The Next Silicon Valley?: Berlin Startups Catching Up With the Hype, NPR All Tech Considered (July 9, 2012).
[103] Business Creation in Germany: A Slow Climb—A Vigorous Start-Up Scene Has Yet to Produce its First Breakthrough (October 5, 2013).

a per capita basis the number of venture capital investments in Germany is comparable to the US—11 to 12 investments per one million persons—but the average investment in Germany (€780,000, or around $1,000,000) is significantly lower than in the US (€6,000,000).

German venture capitalists have been criticized for being slow to identify and support innovative ideas and products, a situation that has been attributed to a lingering conservatism after getting badly burned by the "dot-com bust" in the early 2000s. The Economist explained that German venture capitalists tend to be much more cautious than their counterparts in the US, typically avoiding investing in large numbers of companies hoping that one of them will be wildly successful and instead selectively concentrating on a smaller group of companies hoping for a higher success rate (i.e., profitability within 18 to 24 months).[104] One specific problem for Berlin startups has been the difficulties they have had securing early-stage funding, particularly from venture capitalists based in Germany and elsewhere in Europe, and when investments have been made the amounts, as noted above, have generally been quite small. There are exceptions, however, and Westervelt has reported on funds like Early Bird that had invested $40 million more than two dozen Berlin startups as of 2012 and had raised an additional $200 million, half of which was targeted for investment in Berlin.[105] While this is encouraging, the reality is that the venture capital environment throughout Europe remains cautious and local investors in Berlin have argued that Germany needs to launch more large venture capital funds and that Berlin itself needs to have several new funds focusing primarily on local opportunities and building an innovation infrastructure that will help their portfolio companies thrive.

Germany has also been slow to build networks of angel investors due, in part, to the absence of a large community of successful entrepreneurs who are able and willing to provide seed funding to new ventures as is commonly done in Silicon Valley. This situation may not change for five to seven years, since it will likely take that long for the founders of the current crop of startups to grow their businesses to the point where they can cash out and gather the funds need to reinvest in the Berlin startup community. In addition to their problems raising significant amounts of capital from local venture capitalist, German entrepreneurs must overcome the reluctance of German banks, including the local savings banks and cooperatives that have funded traditional businesses, to make loans to support untested digital business models.[106]

Outside of the local venture capital community support for promising start-ups is sometimes available from larger German companies, such as Deutsche Telekom, Axel Springer Verlag and Rewe, that have set up their own incubators and provide modest amounts of initial funding; however, these companies are not as interested in building larger enterprises and achieving substantial financial returns on their investment as they

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[104] Id.

[105] E. Westervelt, The Next Silicon Valley?: Berlin Startups Catching Up With the Hype, NPR All Tech Considered (July 9, 2012).

[106] Business Creation in Germany: A Slow Climb—A Vigorous Start-Up Scene Has Yet to Produce its First Breakthrough (October 5, 2013).

are in supporting an "early-warning system" that identifies new trends outside of their existing businesses that they can pursue using their internal resources once it is clear that profitable innovation opportunities are available.[107]

National and state governments have also attempted to provide assistance to German entrepreneurs in a variety of ways including the creation of development banks to make loans to new companies. The Economist described the role of a semi-official venture capital firm called High-Tech Gründerfonds (HTGF), which has been a major investor in the country's national development bank relying on capital collected from big German companies and from the country's economy ministry.[108] As of 2012, HTGF had provided seed funding and advice to hundreds of start-ups in exchange for 15% of the equity of the companies; however, entrepreneurs complain that HTGF is often overly bureaucratic befitting its governmental roots.

§1:10 Human resources management

Berlin entrepreneurs often complain about a shortage of high-quality programmers and engineers for their companies. While government officials have been attempting to provide assistance by fast-tracking visa applications from foreign technology professionals and other workers willing to move to Berlin, the long-term problem for the city is that it lacks a world-class engineering university that could spin out the programmers and software developers that are so desperately needed by local startups and provide funding and support for basic R&D projects that Berlin entrepreneurs could tap into as source for innovative business models.[109] However, there are five smaller universities in Berlin and each of them has gradually increased their contribution to the talent base for the city's start-ups. In general, labor costs remain relatively cheap in Berlin, with younger workers willing to come to the city because of its "cool reputation"; however, shortages of key skills such as programming and engineering means that salaries for people qualified in those areas will like trend upwards.

Bau and Dowling analyzed the impact of an entrepreneurial company's initial organization on the structure of its reward and incentive systems, which were defined to include all monetary and nonmonetary rewards and incentives provided by the company, using data from entrepreneurial firms in Germany and found that the educational level of employees had the strongest impact on the application of different financial and nonfinancial rewards and entrepreneurial companies rarely implemented sophisticated financial reward systems.[110] They argued that the emphasis among the entrepreneurial companies that they studied on nonfinancial rewards was not surprising given that the companies generally operated with limited resources and under high levels of uncertainty and risk, thus tilting the focus of their reward and motivation systems toward

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[107] Id.

[108] Id.

[109] E. Westervelt, The Next Silicon Valley?: Berlin Startups Catching Up With the Hype, NPR All Tech Considered (July 9, 2012).

[110] F. Bau and M. Dowling, "An Empirical Study of Reward and Incentive Systems in German Entrepreneurial Firms", Schmalenbach Business Review, 59 (April 2007), 160.

nonfinancial incentives implicit to the work experience itself including a high degree of responsibility and acknowledgement of individual performance and social incentives such as team support, helpfulness and equal communication.[111] Of course, the companies frequently offered direct financial rewards such as fixed base salaries and variable income, in the form of bonuses, based on individual performance; however, the surveyed firms made relatively little use of other financial reward such as retirement plans, equity incentive arrangements and revenue sharing programs.

Bau and Dowling also followed the opinions of others to the effect that management teams of entrepreneurial companies often lack the capacity and experience to design, implement and effectively administer sophisticated financial-based incentive systems.[112] However, Bau and Dowling cautioned that the education level of the employees was an important determinant of the most effective reward and incentive structure for a particular company and that companies seeking to recruit and hire employees with higher levels of education and technical training should expect that those employees will have more sophisticated reward and incentive systems that will need to be recognized and satisfied in order for the company to build and maintain the workforce need to be competitive. Highly-skilled workers would also presumably assign greater importance to some of the organizational incentives offered by the companies included in the survey such as flatter hierarchies, open information policies and participative leadership style.

One of the most striking and influential characteristics of corporate governance and human resources management in Germany, at least among the larger companies, is breadth and strength of employee participation in governance matters.[113] Due to legislative mandate, employee representation rights in Germany are quite strong and employees can rely on internal channels to provide them with access to information and opportunities for meaningful consultation on decisions rather than having to resort to external strategies such as strikes and similar collective actions that predominate in the US.[114] In addition, while union organizational models in the US tend to be either class-based unions, such as industrial unions, or occupation or craft-based unions, which are organized around particular sets of qualifications, Germany favors enterprise-based

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[111] Id. at 171. Bau and Dowling noted that while social incentives such as helpfulness and consideration and open information policies may be designed by management, they also may arise as a result of the weak organizational structures often found among start-up companies. See L. Greiner, "Evolution and Revolution as Organizations Grow", Harvard Business Review, 50(4) (July-August 1972), 37; and F. Bau and M. Dowling, "Reward and Incentive Systems in Start-ups–A Comparison of Approaches in Human Resource Management and Organizational Psychology", in Frontiers of Entrepreneurship Research (2001).

[112] F. Bau and M. Dowling, "An Empirical Study of Reward and Incentive Systems in German Entrepreneurial Firms", Schmalenbach Business Review, 59 (April 2007), 160, 171. See also L. Greiner, "Evolution and Revolution as Organizations Grow", Harvard Business Review, 50(4) (July-August 1972), 37; and F. Bau and M. Dowling, "Reward and Incentive Systems in Start-ups–A Comparison of Approaches in Human Resource Management and Organizational Psychology", in Frontiers of Entrepreneurship Research (2001) (studying managers of entrepreneurial companies in German information technology industry and finding that they often lacked the time required to develop sophisticated employee incentive systems).

[113] R. Aguilera and G. Jackson, "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants", Academy of Management Review, 28(3) (2003), 447, 454.

[114] Id. at 456.

unions which recruit their members from specific enterprises (firms). Enterprise-based unionism allows German employees to pursue strategies of internal participation since those types of unions are primarily interested in long-term employment arrangements with the specific enterprise and the issues that arise for such unions tend to be related to factors associated with the long-term success of the enterprise.[115] Notice should be taken, however, that as companies in Germany transition from banks to markets as sources for their capital the relationship between those companies and their non-shareholder stakeholders, such as labor, may well evolve away from the co-determination models that have dominated in Germany in past years.[116]

Aguilera and Jackson reported that training of production workers in Germany has traditionally been conducted through a collaborative system that includes employer associations, industrial unions and the state, and that firms have also participated by supporting the efforts of employees to obtain publicly certified occupational skills.[117] Firm participation is interesting in that the skills learned by their employees were portable and could be taken to competitors; however, on balance German companies believe that such participation was worthwhile because it assured high levels of training.

§1:11 Product development and commercialization

In their cross-national study of various aspects of the new product development processes used by durable goods manufacturers in five dispersed countries, including Germany, Ettlie et al. found that integration of design and manufacturing processes proceeded relatively smoothly among the German respondents, a finding that the researchers attributed to the strong emphasis on technical training in Germany supported by the long-standing national systems of apprenticeship.[118] Ettlie et al. also noted that the parity in the percentage of degreed design and manufacturing engineers at the 100% level in the Germans firm included in their survey was illustrative of what they referred to as the "stereotypical German approach to technical problems—thorough, painstaking, and with high technical standards".[119]

Limprecht and Hayes also identified several different characteristics associated with German firms and their management and human resources practices that would likely influence the way in which they approached and conducted their new product

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[115] Id.

[116] S. Nestor and J. Thompson, "Corporate Governance Patterns in OECD Economies: Is Convergence Underway?", in S. Nestor and T. Yasui (Eds.), Corporate Governance in Asia: A Comparative Perspective (2000), 19, 38.

[117] R. Aguilera and G. Jackson, "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants", Academy of Management Review, 28(3) (2003), 447, 457.

[118] J. Ettlie, C. Dereher, G. Kovacs and L. Trygg, "Cross-National Comparisons of Product Development in Manufacturing", The Journal of High Technology Management Research, 4(2) (1993), 139, 141, 151. See also L. Lynn, "Technology and Organizations: Cross-National Analysis", in P. Goodman and L. Sproul (Eds.), Technology and Organizations (1990), 174, 189; L. Trygg, Engineering Design: Some Aspects of Product Development Efficiency (1991); and J. Lee and N. Wallbaum, "Apprenticeship Training: The U.S. versus West Germany", Operations Management Review, 8(3/4) (1991), 19.

[119] J. Ettlie, C. Dereher, G. Kovacs and L. Trygg, "Cross-National Comparisons of Product Development in Manufacturing", The Journal of High Technology Management Research, 4(2) (1993), 139, 150.

development activities.[120] First of all, senior managers in German firms generally had strong technical backgrounds.[121] Second, the strength of apprenticeship programs in Germany, and the reliance of German firms on the skills disseminated in those programs, created a workforce that was more qualified to understand and efficiently incorporate manufacturing technologies. Third, product strategies favored by German firms focused on creating well-engineered, high quality products that were delivered on time and supported by extensive and excellent service. Finally, German firms take a more long-term view of product evolution and market competitiveness and thus are willing to accept lower profit margins to secure and maintain market share and long-term stability.

As part of their study, Ettlie et al. analyzed a number of other aspects of the new product development process within the surveyed firms.[122] For example, they found that the German firm, like companies from other countries included in the survey, was continuously interested in improving the quality of their new products and reducing time-to-market and also devoted special efforts to reorganization, doing so in a relatively focused manner by concentrating on just three areas at a time. In addition, at the time of the survey in the early 1990s the German firm was preparing for a shortening of product life cycles which would be accompanied, hopefully, by a reduction in the amount of time required to complete development of new products. As to the efficiency of its product development processes, as measured by compared the ratio of product life cycle to development period, the German firm lagged far behind the US company included in the survey—a ratio of 9.33 for the US firm compared to 2.5 for its German counterpart—but was comparable to the Swedish firm in the survey and more efficient that the participants from Hungary and Japan.

Ettlie et al. also carefully studied similarities and differences among the participants in their survey group regarding concept development processes. They observed that the concept development process in the German electric motors firm could be described as follows: ". . . most ideas come from the design department, which would be expected from the culture's technical and organizational traditions. The sales department gives advice and feedback from customers, but the opinion was that these are immediate, short-term customer needs only. In order to anticipate future, long-term customer needs, more has to be done. Designers typically visit customers or interact with potential buyers at trade shows and fairs. The technical project leader provides vision and direction in this German company."[123] With respect to coordination between functions and disciplines

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[120] J. Limprecht and R. Hayes, Germany's World-Class Manufacturers, Harvard Business Review (November/December 1982), 137.

[121] Ettlie et al. also observed that the relative abundance of technically trained managers in Germany was likely to influence the new product development process, particularly the design approach, among firms in that country. See J. Ettlie, C. Dereher, G. Kovacs and L. Trygg, "Cross-National Comparisons of Product Development in Manufacturing", The Journal of High Technology Management Research, 4(2) (1993), 139, 142. With regard to the influence of professional orientation on organizational culture and practices generally, see also J. Van Maanen and S. Barley, "Occupational Communities: Culture and Control in Organizations", in Research in Organizational Behavior (1984), 287.

[122] J. Ettlie, C. Dereher, G. Kovacs and L. Trygg, "Cross-National Comparisons of Product Development in Manufacturing", The Journal of High Technology Management Research, 4(2) (1993), 139, 144-145.

[123] Id. at 147.

during the product development process, Ettlie et al. found a 2:1 ratio of design to manufacturing engineers within the German firm; however, when the focus of measurement was the proportion of degreed design and manufacturing engineers, Ettlie et al. found the percentages in Germany were 100% for each category, not surprising given that almost all engineers in Germany complete formal training to earn a degree. In addition to engineers, the German firm included specialists from production planning, sales and quality.

In their comparative study of product development benchmarks in the German and UK food industries, Haake et al. found that the German companies they surveyed tended to take a long-term orientation with respect to strategic planning for product development that included planning horizons that were pushed out for five years.[124] The Germans also projected quite lengthy product life cycles of 70 months, which contrasted sharply with the UK companies that were studied and typically expected their new products to be on the market for only 12 months. The validity of these projections was borne out by the fact that product renewal cycles were much lengthier in Germany than in the UK (i.e., 32% of the sales of UK firms came from products launched in the previous two years while the comparable percentage for German companies was just 12%). Haake et al. observed that the German companies preferred tight, task centered organizational structures for their product development activities, tended to focus more on research than on product development and commercialization, and preferred formality over flexibility with respect to organization and execution of product development projects.

Harstatt et al. conducted a comparative study involving German and Japanese companies that focused on how they managed the early stages of new product development projects.[125] While the researchers confirmed the tendency toward formality among the German firms, they noted that the German companies that they studied were somewhat less formal in their approach than the Japanese companies they were compared to. Harstatt et al. also reported that "in German [product development] projects all relevant functions were integrated early in the process, partly already during idea generation, to ensure that all information and points of view were taken into consideration right from the start . . . [and] . . . [r]esponsibilities were assigned during the front end and rarely changed during project execution to reduce deviations and enhance efficiency."[126]

Roure studied companies in France and Germany to identify potential cultural differences in the characteristics of "product champions" in those countries.[127] Rouse found that in France, a high power distance culture, the chances for an innovation project to be successfully completely were greatly enhanced by having a product champion for that project who was close to top management of the firm and that a "top-down" championing

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[124] S. Haake, C. Moore and N. Oliver, Recipes for Success—Product Development Benchmarks in the UK and German Food Industries (2000).

[125] C. Harstatt, B. Verworn and A. Nagahira, The "Fuzzy Front End" of Product Development: An Exploratory Study of German and Japanese Innovation Projects (2002), 22.

[126] Id..

[127] L. Roure, Cultural Differences in Product Champions Characteristics: A Comparison of France and Germany (1999).

process appeared to be favored in France.[128] In contrast, among the German companies studied the hierarchical level of the product champion appeared to have little significance with respect to whether or not an innovation project was supported by top management and "bottom-up" championing processes seemed to be just as likely as "top-down" initiatives. Roure noted that French product champions emerge out of the same elitist educational system that produces senior managers in that country and are thus more likely to have preexisting links to top management due to their similar backgrounds and educational experiences. In Germany, however, product champions climb gradually up the hierarchies of their firms, a process that provides them with better understanding of the organization and makes them more efficient in carrying out their activities in promoting new innovation projects.

Another aspect of new product development that may be influenced by societal culture is planning, which is obviously relevant when new products are being vetted, selected, developed and commercialized, and researchers have found that planning can lead to different types of successful outcomes and that variable patterns can be observed across cultures. For example, Hagerty and Hoffman found that the better planners among German firms realized the value of planning through higher returns on assets.[129]

§1:12 Technology management

In a study conducted in the early 1990s, Bond et al. found that average R&D intensity in German firms was larger than the corresponding figure for comparable UK companies and argued that the lower levels of R&D investment in the UK could likely be attributed to a corporate governance and finance framework in the UK that imposed higher requirements for the required rate of return on R&D and thus made it more difficult to obtain approval for R&D projects.[130]

Wildemann conducted a review of the published research on innovation management among small- and medium-sized German enterprises and observed that companies were frequently challenged by restricted technical opportunities, limited financial resources and shortcomings in the capacity of their personnel and that many firms had failed to invest in the creation and support of formal structures for innovation management such as forming individual departments focusing on research and development activities.[131] Wildemann also noted that the methods and tools used by German SMEs for innovation management were often deficient with decision makers typically lacking sufficient information about new ideas to determine which ones were the most promising candidates for further assessment and investment and operating without standardized management practices that led to lengthy and cost repetition of effort each time a new idea surfaced. Another issue that had a negative impact on the development of

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[128] Id. at 16.

[129] W. Hagarty and R. Hoffman, "The Relationship between Strategic Planning and Performance Among Three Cultures", Proceedings, Academy of Management (1990), 106.

[130] S. Bond, D. Harhoff and J. Van Reenen, Corporate R&D and Productivity in Germany and the United Kingdom (September 2002).

[131] H. Wildemann, R&D-Portfolio Management of German Industrial Enterprises—An Empirical Survey, International Journal of Technology Intelligence and Planning, 5(2) (2009), 191.

innovation culture among German SMEs was their lack of knowledge of the strengths of their own employees, which typically inhibited assignment of roles and responsibilities in R&D activities and implementation of training programs to address skill gaps. Finally, the ability of German SMEs to select the most appropriate innovation projects, and properly define the scope of projects that were selected, was hindered by a lack of information regarding market conditions and the technology requirements in those markets. In his own study of innovation management among 480 German companies, Wildemann found that respondents generally failed to pay sufficient attention to their customers and to competitors in making product development decisions and that poor internal communications with respect to R&D often led to duplicative activities and wasted resources.[132] Another issue that Wildemann uncovered was a widespread failure among respondents to protect their proprietary knowledge.

§1:13 Globalization

In their survey of internationalization among young high-tech companies from Germany and the UK, Burgel et al. found that internationalization was the norm among the surveyed companies from each country, those companies that did internationalize did so fairly quickly after formation and direct exporting or exporting through a distributor were the two most common modes of internationalization for all sampled firms.[133] The researchers found that the German respondents appeared to be more risk averse than their counterparts in the UK at least in terms of the breadth of their international activities, although it was true that the German companies tended to internationalize more rapidly than the UK companies. The Germans concentrated their export activities on France and other neighboring European countries and their primary focus typically remained the domestic market in Germany including sales of customized products and services to larger German multinationals for incorporation into their own exports. Burgel et al. observed that the German companies appeared to be more closely integrated into the value chain of both suppliers and customers than the UK companies included in the survey. In addition, the German companies produced more customized products, thus limiting the scope of their potential customer base. Within the German companies included in the survey the researchers found that regularity of R&D was an important discriminator of higher internationalization, but that there were no significant differences with respect to the "innovativeness" of the technologies applied between the companies that internationalized and those that remained domestic-focused.

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[132] Id. (citing H. Wildemann, "Am Kunden Vorbei", Harvard Business Manager, 30(3) (2008), 8).

[133] O. Burgel, G. Murray, A. Fier and G. Licht, The Rapid Internationalisation of High-Tech Young Firms in Germany and the United Kingdom (2000), 10.

Chapter 2
Switzerland

§2:1   Introduction

Staeheli noted that "particularism" is a strong and widely-recognized characteristic of Switzerland and pointed out that while 64% of the Swiss population is German-speaking, there are also large groups of French and Italian speakers that have their own cultural attitudes.[134]   In addition, the Catholic and Protestant religions are roughly evenly distributed throughout Switzerland. Immigration has also influenced societal culture in Switzerland and estimates are that the percentage of immigrants in the country hovers around 20% of the total population. Staeheli used the following quote from one of the commentators on Swiss societal culture to sum up the situation: "Ethnographically speaking, there is no Swiss people and no homogeneous Swiss nation. Nor can one talk about a Swiss culture, because various cultures came into contact with one another and even today still overlap. Switzerland has remained a mosaic of world and regional history, religions, languages, and dialects, all confined in a very small space. The basic principle that holds the country together is a political will to remain culturally independent, and not just a collection of peculiarities in the heart of Europe."[135]

Switzerland has consistently been recognized for its innovation and the results of the Global Entrepreneurship Monitor announced in 2013 confirmed that Switzerland remained among the most entrepreneurial countries in the world, as demonstrated by its seventh place ranking on the 2012 Global Entrepreneurship and Development Index. The 2012 GEM Country Report for Switzerland explained that entrepreneurial activity indicators for the country had turned upward in both 2011 and 2012 and that Switzerland compared quite favorably to other innovation-based economies with respect to its overall entrepreneurial framework conditions (e.g., finance, commercial infrastructure, tertiary education, knowledge and technology transfer, and stability of internal market dynamics); however, Swiss entrepreneurs lagged behind with respect to their ambitions for rapid growth and job creation. It has been reported that more than 12,500 new business ventures were launched in Switzerland in 2010, 1,707 of which were in technology-based industries such as energy and ICT (information, communications and technology).

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[134] B. Staeheli, Cross-Cultural Management within Switzerland: An In-depth Case Study of a Swiss Financial Services Company (2003), 49.
[135] Id. at 52.

Switzerland is relatively stable with respect to its governance processes and this reduces the risks for entrepreneurs that they might have to contend with continuous, and often unexpected, changes in the rules of the game relating to launching and growing their businesses. Switzerland also allocates a substantial amount of control to local governmental entities, which means that start-ups will be interacting with officials that presumably have a better sense of the needs in their communities and are more open to entrepreneurs working to create local jobs.

Grichnik et al., writing for the Swiss Start-Up Monitor, analyzed technology-based entrepreneurship in Switzerland by looking at 118 companies that had achieved "label" status from the Swiss Commission for Technology and Innovation ("CTI")[136] from 2005 to 2013 and found that the five most represented sectors were, in order, ICT (36%), medical technology and diagnostics (26%), engineering (20%), biotechnology and pharmaceuticals (15%), and energy and "Greentech" (3%).[137] ICT was the fastest growing sector for new venture activities in Switzerland during the 2000s, but growth slowed somewhat in 2009, 2010 and 2012. With respect to the geographical allocation of the CTI-labeled start-ups, more than 50% of them were located in either the cantons of Zurich or Vaud, and Grichnik et al. suggested that the high concentration of technology start-ups in these cantons could be attributed to the positive influence of the local federal universities (ETH Zurich and EPF Lausanne) on regional entrepreneurship activities.[138]

§2:2 Entrepreneurship

The Swiss Start-Up Monitor (www.startupmonitor.ch) was established to serve as an independent database for the secure capturing and sharing of information on Swiss start-ups and their performance indicators. Grichnik et al. reported in 2013 that there were more than 150 organizations in Switzerland supporting entrepreneurial ideas and talents, most of which provided grants for innovative business concepts and technological ideas.[139] For example, CTI Invest (www.cti-invest.ch) claims to be the leading financing platform for Swiss start-ups that provides a place for entrepreneurs to find early and later stage capital and gain access to the experience and networks of investor members. Among other things, CTI Invest publishes an annual Swiss Venture Guide that provides profiles of support organizations for Swiss start-ups, investor profiles, an overview of business plan competitions and other helpful links.

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[136] "Labeled companies" are firms that have been formally recognized by various organizations in Switzerland for their entrepreneurial promise, including firms awarded the CTI Label (for participating in the CTI Start-Up Programme), EPFL Spin-Off Label or ETHZ Spin-Off Label, or firms listed among the Top 100 Start-Ups or Venture Leaders. The CTI serves as the Swiss government's innovation promotion agency by lending support to R&D projects, entrepreneurship, development of start-up companies, and knowledge and technology transfer.

[137] D. Grichnik, M. Fantetti and U. Gross, The Start-Up Landscape of Switzerland: First Insights from the Swiss Start-Up Monitor (2013), 9-10.

[138] Id. at 10-12.

[139] Id. at 1.

Results from the 2011 Global Entrepreneurship Monitor ("GEM") survey of entrepreneurship in Switzerland revealed that the rate of perceived opportunities to start a new business in Switzerland was above average, but that the rate of opportunity exploitation in the country was low compared to the European average, a finding that caused Grichnik et al. to suggest that better supporting activities and programs were needed for start-ups in Switzerland to ensure that perceived opportunities were not wasted.[140] Statistics from the Swiss Federal Statistical Office and Eurostat showed that 3.6% of all of the companies in Switzerland in 2006 were "newcomers", a percentage that was actually well below the European average of 9.9%; however, the "death rate" of companies in Switzerland that year (the amount of closures among active companies) was just 3.5%, much lower than the European average of 8.3%, and a finding which led Grichnik et al. to observe that "[e]ven though the company birth rate is relatively low, start-ups seem to fail less in Switzerland".[141] The exceptional survival rates of Swiss start-ups may also be traced to the relatively high level of risk aversion in the country's societal culture.

The Swiss Start-Up Monitor compiled a profile of the founding teams of some, but far from all, of the start-ups included in the Monitor's database.[142] The data was collected from 113 start-ups that entered details regarding a total of 221 founders, meaning that the average size of the founding team for the group was about 1.8 members. One important finding was that women remained relatively underrepresented in Swiss entrepreneurial activities. Another interesting characteristic among the founder group was that most of them were aged between 30 and 49, refuting the popular conception that entrepreneurship was for younger people in their 20s. Grichnik et al., who analyzed the data for the Monitor, argued that the observed age structure was likely tied to the educational background of the members of the founder group, many of whom had spent a number of years completing advanced degrees that necessarily delayed their entry into entrepreneurship. Specifically, of the 181 founders that entered their educational background into the Monitor's profiling system, 54.7% attained a university degree, 33.7% had a doctorate and 7.2% had a professor's degree. The founders came from a broad range of academic backgrounds, with the most popular being computer science, economics, mechanical engineering, medical sciences, biology and electrical engineering. While the educational level of the members of the founder group was certainly impressive and presumably provides some advantages to the companies that they lead, there is evidence that the connection between education and performance is relatively weak and that experience in terms of entrepreneurial, management, industry or work experience is more important to successful venture performance.[143]

Grichnik et al. devised an index for measuring the heterogeneity of the founder teams based on their "graduation type" (i.e., degree level) and educational area and found that Swiss start-ups with more heterogeneous founder teams in regards to their educational

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[140] Id.

[141] Id.

[142] Id. at 14-15.

[143] See K. Haug, S. Read, J. Brinckmann and D. Grichnik, Entrepreneurial Talent and Venture Performance: A Meta-Analytic Investigation in SMEs (2013).

area were more likely to secure financing from venture capitalists, leading Grichnik et al. to comment that "a "B-Idea" with an "A-Team" is better than vice versa".[144] Grichnik et al. also found that almost half of the companies in their study group had "spun-off" from universities and that these companies preferred to remain in close proximity to their universities and typically continued to work closely with them for many years after the company was launched.[145] Among the advantages cited by these companies for remaining close to the universities were keeping in touch with "the pulse of progress", access to the university's infrastructure and opportunities to meet potential new employees or founding team members. The researchers also found evidence to confirm their expectations that the survival rate of university spin-off companies was higher than non-spin-off companies and that spin-off companies played an important role as innovation drivers within Switzerland as evidenced by the relatively high rate of patent registration by spin-offs and universities in the Zurich and Vaud regions compared to most of the other cantons.[146]

§2:3   Leadership

Switzerland, primarily the German-speaking segment of the population, was part of the Germanic Europe cluster identified by the researchers of the GLOBE project, sharing membership with Austria, Germany and the Netherlands.[147] The GLOBE researchers found that charisma, team-orientation and participation were the most highly contributing factors for effective leadership among the countries in the cluster, with humane orientation also being important although not as influential as the other three factors. Self-protection was not well regarded and perceived as hindering effective leadership. Szabo et al. noted that while charisma was a rather universal leadership concept widely praised and favored around the world, the Germanic Europe cluster could be distinguished from other clusters by the intensity of its endorsement of participation and team-orientation. Szabo et al. argued that with respect to Switzerland the results might well be attributed to the country's long-standing tradition of democracy and participation in the political arena in that country and the domination of values of harmony and consensus over dissention and competition at the societal level.[148] Other commentators have observed that while the Swiss expect their leaders to make the final decisions, effective leadership includes serious efforts to include subordinates in the generation and discussion of ideas and harness the talents of the group.[149]

Staeheli argued that the Swiss leadership prototypes for the three language regions in the country varied substantially with respect to three of the culturally-contingent leader

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[144] D. Grichnik, M. Fantetti and U. Gross, The Start-Up Landscape of Switzerland: First Insights from the Swiss Start-Up Monitor (2013), 5.
[145] Id. at 21.
[146] Id. at 25.
[147] The discussion of the results for German-speaking Switzerland in this paragraph is adapted from E. Szabo, F. Brodbeck, D. Den Harto, G. Reber, J. Weibler and R. Wunderer, "The Germanic Europe Cluster: Where Employees Have a Voice", Journal of World Business, 37 (2002), 55.
[148] Id. at 66.
[149] Intercultural Management—Switzerland, Being a Manager in Switzerland.

attributes identified by the GLOBE researchers: sensitive, provocative and cautious.[150] According to Staeheli, in German-speaking Switzerland there was an expectation of a more provocative, above-average cautious and less sensitive leader. Leaders could expect performance from their subordinates; however, they should not exert power on their employees, and he or she should be slightly more humane, more gender egalitarian and less assertive. In French-speaking Switzerland, leaders were expected to be less cautious, less provocative and less sensitive. Staeheli noted that leaders in French-speaking Switzerland assigned importance to status and hierarchy, and needed to manage ego-related emotions, such as frustration, more so than in the other two regions. Staeheli advised that a leader's behavior in French-speaking Switzerland should be slightly above average for humane, more collectivistic than in other regions, above-average future-oriented, not so assertive, and above average in terms of power distance. Finally, in Italian-speaking Switzerland leaders were expected to be slightly above average sensitive and cautious, and below-average provocative, and are also expected to be person-oriented and have a certain maturity and personality profile. Subordinates in Italian-speaking Switzerland were found to be more critical of their own superiors than the other language regions and also expressed other-related emotions, such as sympathy, more often than other regions. Staeheli explained that an Italian-speaking leader's behavior should be consistent with certain organizational level value orientations in the region including slightly above-average assertiveness, less humane than in German-speaking Switzerland, slightly more collectivistic, and moderately higher on power distance.

Dynargie found that there were two leadership styles that were perceived positively among Swiss workers.[151] The first was a participative style, which was recommended for situation where people had experience but lacked confidence or motivation, and featured involving employees in the problem solving process. The second was a coaching style, which was recommend when working with employees who are highly motivated but lack competencies regarding required tasks, and featured definition of roles and task by the leader accompanied by an explanation from the leader as to why he or she was providing specific guidance and direction to the employees. Dynargie also found that, in general, Swiss leaders pursue and achieve an equal balance between pressing forward with their own ideas and listening to, and sometimes implementing, the ideas of their subordinates.

§2:4   Management

Management styles and practices in Switzerland should be viewed in the context of the country's societal culture influences and thus it is important to remember while the majority of the Swiss are of German decent there are also sizable populations that trace their roots to France or Italy. Staeheli carefully reviewed the empirical findings of a

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[150] The discussion in this paragraph is adapted from B. Staeheli, Cross-Cultural Management within Switzerland: An In-depth Case Study of a Swiss Financial Services Company (2003), 324-325.
[151] Dynargie—The Human Side of Business, Leadership Style Analysis: A Cross-Country Vision in Terms of Leadership Profiles.

number of well-known researchers with respect to Swiss societal culture and then provided a summary that included the following highlights[152]:

- Hall found Switzerland to be a low-context, highly individualistic culture with low people involvement, and also found that time was very important in Swiss culture.[153]
- Triandis found Switzerland to have a horizontal and individualistic orientation.[154]
- According to an assessment published by Hofstede in 2001, the cultural profile of Switzerland included moderately high individualism and masculinity, moderately low power distance and uncertainty avoidance, and Hofstede characterized German-speaking Switzerland as a "well-oiled machine" national culture type and French-speaking Switzerland as a "solar system" national culture type that was characterized by hierarchy and an impersonal bureaucracy.[155]
- According to Hampden-Turner and Trompenaars, Switzerland was a highly universalistic and individualistic culture, which was moderately high on inner direction, had average achieved status, synchronous time orientation and tended towards specificity instead of diffuseness.[156]
- According to Schwartz, Switzerland was an intellectually and affectively autonomous country, with high egalitarianism, but low importance of hierarchy values.[157]
- The GLOBE researchers' assessment of societal culture "as is" for German-speaking Switzerland revealed above average power distance, uncertainty avoidance, future and performance orientation, and above average assertiveness; however, the "to be" scores indicated that German-speaking Swiss aspired to low power distance, average-low uncertainty avoidance, average assertiveness, and high humane orientation, family collectivism and gender egalitarianism.[158]

Staeheli added results from several other surveys to provide a richer and more diverse picture of Swiss societal culture and highlight the differences between the three language regions. For example, a survey conducted by the Swiss national television "SRG SSR Idée Suisse" revealed that 70% of the respondents, regardless of their regional origin, believed that there were differences between the three language regions in Switzerland and that could be found mainly in mentality and language.[159] According to the results of that survey, the most characteristics attributes of the Swiss-Germans included courage and risk-taking; entrepreneurship; environmental awareness; pride in their work; sense of

[152] B. Staeheli, Cross-Cultural Management within Switzerland: An In-depth Case Study of a Swiss Financial Services Company (2003), 140.
[153] E. Hall, Beyond Culture (1976).
[154] H. Triandis, Individualism and Collectivism (1995).
[155] G. Hofstede, Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations across Nations (2nd Ed.) (2001).
[156] C. Hampden-Turner and F. Trompenaars, Building Cross-Cultural Competence: How to Create Wealth from Conflicting Values (2000).
[157] S. Schwartz, "A Theory of Cultural Values and Some Implications for Work", Applied Psychology, 48 (1999), 23.
[158] R. House, M. Javidan, P. Hanges and P. Dorfman, "Understanding Cultures and Implicit Leadership Theories Across the Globe: An Introduction to Project GLOBE", Journal of World Business, 37(1) (2002), 3.
[159] B. Staeheli, Cross-Cultural Management within Switzerland: An In-depth Case Study of a Swiss Financial Services Company (2003), 54-55.

organization and administration; and stereotyping (against other regions); the Swiss-French were characterized by courage and risk-taking; creativity; openness for international issues; flexibility and change orientation; and optimism and trust in the future; and the Swiss-Italian were characterized by creativity; flexibility and change orientation; "*joie de vivre*"; and optimism and trust in the future. A study conducted by Miauton and Reymond in the late 1990 found considerable differences between French-, Italian- and German-speaking Switzerland.[160] Specifically, they found that German-speaking Swiss were environmentally aware; good administrators, organizers, and serious persons; analytic, attentive to details; entrepreneurial and trained in business skills; and professionally dynamic and quality-oriented. In contrast, French- and Italian-speaking Swiss were characterized as: open-minded; mobile and flexible (particularly Italian-speaking Swiss); more tolerant; and more original.

The Hofstede Centre offered various assessments of projected management styles and practices in Switzerland based on observed characteristics of Swiss societal culture.[161] Noting that power distance among Swiss of Germanic success was low, the Hofstede Center predicted that the German Swiss management style would emphasize being independent, hierarchy for convenience only, equal rights, accessibility of superiors, coaching leadership and empowerment, and that power would be decentralized and managers would rely on the experience of their team members. The Hofstede Center also commented that employees would expect to be consulted and dislike controls, and relationships between managers and subordinates would be relatively informal and marked by direct communication and a participative atmosphere. In contrast, the high power distance found in French-speaking Switzerland would likely mean that managerial practices in that region would be hierarchical and centralized and that managers would act as benevolent autocrats issuing directives that would be readily accepted by subordinates who expect to be told what to do and rarely challenge leadership. The Hofstede Center reported that both German- and French-speaking Switzerland scored high on individualism, meaning that employer/employee relationships could expected to be mainly contractual based on mutual advantage and that hiring and promotion decisions are supposed to be based on merit only. High individualism was complimented by high masculinity, which the Hofstede Center explained meant that Swiss workers were generally highly success oriented and driven and expected that their managers would be decisive and employ management practices that emphasized equity, competition and performance. Uncertainty avoidance in Switzerland varied between the French-speaking area (high uncertainty avoidance) and the German-speaking area (lower uncertainty avoidance) and the Hofstede Center noted that differences between the two regions could be expected with regard to reliance on rules, openness to change and the amount of analysis that goes into making decisions. Finally the Hofstede Center reported that Swiss culture could be characterized as "pragmatic", as opposed to "normative", and "indulgent", as opposed to "restrained".

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[160] Id. at 56 (citing M. Miauton and A. Reymond, Der nationale Zusammenhalt: Mythus oder Realität? Ansichten der Leader und der Bevölkerung (1998)).
[161] The discussion in this paragraph is based on the description of Swiss societal culture published online by The Hofstede Centre, http://geert-hofstede.com/switzerland.html

The GLOBE project researchers found the scores of the societal culture practices in German-speaking Switzerland, to be relatively high with respect to uncertainty avoidance, performance orientation and power distance, results that were consistent with the other countries in assigned to GLOBE's Germanic Europe cluster along with Switzerland (i.e., Austria, Germany and the Netherlands).[162] The Swiss scores for future orientation and assertiveness were also higher than average, although not as important as the three previously mentioned dimensions.[163] The GLOBE researchers observed that after taking into account their absolute scores and completing a comparative analysis in relation to other clusters around the world, Switzerland and the other countries in the Germanic Europe cluster were characterized by practices with a stronger tendency toward standardization and rules, higher levels of assertiveness, and more gender equality.[164] In relation to other clusters, the Germanic European countries placed less emphasis on institutional collectivism, group and family collectivism, gender egalitarianism, and humane orientation.[165] When scores on "practices" and "values" (i.e., the way that respondent would like their country's societal culture to be) were compared, the Swiss clearly desired higher levels of general egalitarianism and lower levels of uncertainty avoidance, power distance and assertiveness. Staeheli observed that in terms of "values", and compared to actual practices, the scores for French-speaking Switzerland were almost identical with the Latin cluster and the scores for German-speaking Switzerland were almost identical with the Germanic cluster.[166]

Results from the GLOBE research indicated that team orientation and participation are perceived as important for effective leadership in German-speaking Switzerland and Szabo et al. argued that these results might well be attributed to the long-standing tradition of democracy and participation in the political arena in that country and the domination of values of harmony and consensus over dissention and competition at the societal level, and commented that "[i]nfluenced by this background, contemporary Swiss managers are likely to view participation as a value in itself and consider it a 'logical ingredient' of their management style".[167] The GLOBE researchers also found that Switzerland scored low with respect to gender egalitarianism practices but that respondents clearly felt that improvements in this area were desirable and important. Szabo et al. noted that, as of the early 2000s, women in Switzerland, while constituting 40% of the workforce, were toiling mainly in sales, agriculture and unskilled manufacturing, and that at that time only a quarter of the seats in the national parliament were held by women.[168]

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[162] E. Szabo, F. Brodbeck, D. Den Harto, G. Reber, J. Weibler and R. Wunderer, "The Germanic Europe Cluster: Where Employees Have a Voice", Journal of World Business, 37 (2002), 55, 63.

[163] The discussion of the results for German-speaking Switzerland in this paragraph is adapted from E. Szabo, F. Brodbeck, D. Den Harto, G. Reber, J. Weibler and R. Wunderer, "The Germanic Europe Cluster: Where Employees Have a Voice", Journal of World Business, 37 (2002), 55.

[164] Id. at 65.

[165] V. Gupta, P. Hanges and P. Dorfman, "Cultural Clusters: Methodology and Findings", Journal of World Business, 37(1) (2002), 11.

[166] B. Staeheli, Cross-Cultural Management within Switzerland: An In-depth Case Study of a Swiss Financial Services Company (2003), 64.

[167] E. Szabo, F. Brodbeck, D. Den Harto, G. Reber, J. Weibler and R. Wunderer, "The Germanic Europe Cluster: Where Employees Have a Voice", Journal of World Business, 37 (2002), 55, 66.

[168] Id. at 64.

Schroter and Davioine examined and described research regarding authority relationships between superiors and subordinates in Switzerland using dimensions first developed by Beetham and subsequently adapted by Whitley.[169] They noted that Swiss organizations tended to be conceptualized as systems of formally defined rules, a conception that fit well with Hofstede's "well-oiled machine", and that Swiss organizations tend to be hierarchical to assure rational task performance and rely on clear definitions of tasks and responsibilities. In addition, they pointed out that several researchers had reported that consensus orientation was an important feature of Swiss management.[170] Also relevant to understanding management styles and practices in Switzerland was the low physical and psychological distance between superiors and subordinates, with superiors expected to exert influence and power moderately through their technical know-how and expertise and professional competence. Overt status symbols are de-emphasized, equal treatment (i.e., rules are valid for and should be applied equally to everyone) is valued and functional departments are given a high degree of autonomy.[171] Finally, Schroter and Davioine reported that researchers had found a strong performance orientation among the Swiss and that they attributed a high value to work.[172]

§2:5 Organizational design

Jacob referred to the traditional notion of organizational structure in Switzerland as begin bureaucratic and mechanistic, characteristics thought to be the best means of operationalizing the notion of "Swiss-efficiency".[173] Researchers such as Hofstede have argued that there were clear differences between German- and French-speaking Switzerland with regard to the characteristics of the preferred organizational structure in those language regions.[174] In German-speaking Switzerland, one was likely to find an organizational structure form commonly referred to as a "well-oiled machine", which is

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[169] O. Schroter and E. Davioine, The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries (2009) (citing D. Beetham, The Legitimation of Power, Issues in Political Theory (1991) and R. Whitley, Divergent Capitalisms: The Social Structuring and Change of Business Systems (2000), 52).

[170] Id. at 11 (citing J. Weibler and R. Wunderer, Leadership and Culture in Switzerland—Theoretical and Empirical Findings, in J. Chhokar, F. Brodbeck and R. House (Eds.), Culture and Leadership Across the World: The GLOBE Book of In-Depth Studies of 25 Societies (2007), 251).

[171] J. Weibler and R. Wunderer, "Leadership and Culture in Switzerland—Theoretical and Empirical Findings", in J. Chhokar, F. Brodbeck and R. House (Eds.), Culture and Leadership Across the World: The GLOBE Book of In-Depth Studies of 25 Societies (2007), 251, 266.

[172] O. Schroter and E. Davioine, The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries (2009), 12 (citing J. Weibler and R. Wunderer, "Leadership and Culture in Switzerland—Theoretical and Empirical Findings", in J. Chhokar, F. Brodbeck and R. House (Eds.), Culture and Leadership Across the World: The GLOBE Book of In-Depth Studies of 25 Societies (2007), 251).

[173] N. Jacob, "Organizational Structure and Cross-Cultural Management: The Case of Credit Suisse's Project Copernicus in Singapore", Vikalpa, 32(4) (December 2007), 63.

[174] See, e.g., G. Hofsede, Culture's Consequences (2001). Certain aspects of the discussions of the "well-oiled machine" and the "solar system" included in this section are adapted from P. Banks, B. Walsfisz, L. Conelissen and Y. Slotboom, Intercultural Competencies: Turning Global Strategy into Tangible Reality (July 2005); H. Wursten, Culture and Change Management; and H. Wursten and T. Fadrhonc, International Marketing and Culture (2012).

characterized by a systematic and structured approach to operations (a "workflow bureaucracy"), high esteem for expertise and a need for status symbols to demonstrate success. The well-oiled machine is thought to be the appropriate response to the small power distance and strong uncertainty avoidance found in German-speaking Switzerland, a combination that creates a strong internal need for structure that explains the emphasis on expertise, quality, objectivity, reliability and accuracy. In order to effect change in a company operating under the well-oiled machine model it is necessary for the change agent to develop credibility as an expert in the areas that are relevant to the proposed change. In addition, the small power distance means that employees in a well-oiled machine expect to be allowed to participate in decision making processes and work in an empowered way; however, they understand the role that expertise plays in discussions and the need to restrict autonomy in order to work within the agreed system and structure.

Banks et al. explained that while structure and predictability are valued and pursued within the well-oiled machine, members of the organization will not passively accept authority imposed upon them simply by structure and will demand that authority be accompanied by competence and expertise and that everyone has a fair opportunity to participate in the creation and maintenance of the organizational systems.[175] In a well-oiled machine, leaders are expected to be competent experts who are willing and able to convince others to act through factors and thorough analysis of the situation. Once decisions are made, senior management is expected to lay out objective "rules of the game" and freely disseminate information about operations so that everyone involved is able to check progress and procedures against objective standards. The systems and structure used in a well-oiled machine are all designed to free people to focus on pursuing and achieving high quality using their own competencies and acting autonomously. Senior managers should exercise their expertise only through infrequent interventions if needed to resolve unforeseen or ambiguous situations and not by excessive controlling that is likely to de-motivate employees. However, in order for this approach to work, employees must also be willing to share detailed information about their activities so that senior management can track progress from afar.

In contrast, the organizational structure of firms in French-speaking Switzerland, where individualism and power distance are both much stronger than in German-speaking Switzerland, has often been described as a "solar system" characterized by an expert and intellectual approach, more hierarchical "top-down" management, style, formality, reference to the individual and an emphasis on status. The solar system model places authority for making decisions and establishing the strategy of the firm at the top of the organizational hierarchy, based on the implicit belief that the persons at the top have the expertise and information necessary to make the most appropriate decisions. However, when overseeing how decisions are executed the senior manager must be mindful of the strong individualism among employees and this means avoiding too much control and trusting that employees will take pride in their work and autonomously carry out the instructions they have been given.

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[175] P. Banks, B. Walsfisz, L. Conelissen and Y. Slotboom, Intercultural Competencies: Turning Global Strategy into Tangible Reality (July 2005), 11.

When discussing and explaining the solar system model, Banks et al. emphasized that it was based on a clear and unmistakable hierarchy, not surprising based on the high power distance, but that persons within the organization did not necessarily have a strong loyalty to it and often felt strong affiliations to their professional group, academic peer group or their department.[176]   Banks et al. pointed out that while senior managers were both respected and feared within solar system firms, the individualistic need for self-realization among employees made the controlling process somewhat challenging. Senior managers were expected to be competent technocrats, and respected for their expertise; however, they need to avoid meddling too much in the details of the work being performed by their subordinates and rely on their intrinsic motivation to do a good job in accordance with their professional standards.   The affiliation system describe above also increases the likelihood of disputes between departments and makes coordination more difficult for senior management since departments often pursue their own interests and everyone in the organization is reluctant to bring inter-departmental conflicts to the attention of senior management.

Banks et al. also found that expression by employees, and employee participation in decision making, also varies and one finds situations where employees are content to simply execute directives handed down by senior managers and cases where employees are strong engaged in developing and implementing business strategies and processes.[177] In the more traditional organizational settings, final decisions are generally made by the person at the top of the hierarchy, usually after consultation with appropriate subordinates.   In larger firms, important decisions usually require consultation and consensus among the members of the senior management team.   Once decisions are made, managers are expect to provide subordinates with explicit directions regarding implementation and ensure that everyone has the proper materials and understands the procedures that are to be followed in carrying out the decisions. The aversion to risk in Switzerland, coupled with the desire to adhere to high quality standards and pursue perfection, makes it essential that subordinates understand exactly what is expected of them.   The high uncertainty avoidance in Switzerland, and the perceived negative ramifications of failure on both individuals and groups, tends to make change and acceptance of new ideas slow and difficult and managers need to invest a lot of time and effort in convincing workers that a new idea will be good for the group and should be accepted by them.[178]

§2:6   Organizational culture

In assessing organizational culture in Switzerland, one must be mindful of the influence of the various language-based subcultures: French, German and Italian; however, it is fair to say that while the Swiss have been receptive to progress, particularly with respect to technology, the business culture remains relatively conservative with proper deference being given to rank and position; however, while one finds many companies in

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[176] P. Banks, B. Walsfisz, L. Conelissen and Y. Slotboom, Intercultural Competencies: Turning Global Strategy into Tangible Reality (July 2005), 11.
[177] Id.
[178] Id.

Switzerland that are quite hierarchical, there is growing movement towards more egalitarianism.[179] Direct communications are preferred over non-verbal communications and the Swiss are anxious to learn all of the necessary details regarding the subject under discussion. The Swiss tend to value punctuality, orderliness, planning and preparation. Managers and employees are generally quite task-oriented and prefer to maintain privacy with regard to matters that are unrelated to work. Presentations and reports are expected to be well-prepared and thorough and meetings usually follow a set agenda and are expected to move along on schedule. Discussions leading up to decisions are detailed and methodical and an effort is generally made to consult everyone involved or affected by a decision; however, traditional Swiss organizational culture is quite rigid and hierarchical and responsibility and authority for final decisions rests with those at the top of the hierarchy and there is an expectation that once those decisions are made they will be followed without question. Persons of high rank and authority in Swiss organizations are often quite discreet about their status. Switzerland has been characterized as a "controlled-time culture", meaning that schedules are important and failure to meet a deadline or milestone, or a commitment in a contract, is perceived as being a sign of poor management and inefficiency.[180]

§2:7 Strategic planning

As general matter, the importance that the Swiss place on orderliness, planning and preparation leads to an expectation that Swiss firms will adopt some form of formal planning process, although the details may differ depending on the language region where the firm is headquartered. For example, most Swiss companies prefer detailed plans with tight budgets and schedules; however, companies from the French and Italian regions of Switzerland may take a more relaxed approach to planning and strategy than their counterparts from the German-speaking Switzerland. Planning is typically the responsibility of senior management, although senior managers will usually consult widely throughout the organization before making final decisions and setting goals and milestones. Planning horizons in Switzerland tend to be more long-term than in countries such as the UK and the US. Swiss start-ups are introduced to formal planning at an early stage through the large number of business plan competitions held around the country and, in fact, an important part of the value of those competitions to Swiss entrepreneurs is exposing them to professional advisors who can assist with development of more formal and efficient planning processes.

Hoffman collected information on strategic planning and performance from an international sample of firms from several cultural clusters: Anglo (US and UK), Germanic (Germany and Switzerland) and Nordic (Denmark, Finland, the Netherlands, Norway and Sweden).[181] Hoffman noted that researchers had often argued that high uncertainty avoidance leads to increased planning activity, a higher perceived importance of planning and a longer planning time horizon while firms operating in low uncertainty

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[179] Intercultural Management—Switzerland, Being a Manager in Switzerland.
[180] Id.
[181] R. Hoffman, "The Strategic Planning Process and Performance Relationship: Does Culture Matter?", Journal of Business Strategies, 24(1) (2007), 27.

avoidance cultures prefer to use more flexible, short-term planning processes[182], and his own survey found marginal support for the hypothesis that managers from the low uncertainty avoidance Anglo and Nordic cultures would place a stronger emphasis on various strategic planning processes than those from high uncertain avoidance Germanic cultures. Hoffman's survey also provided support for his hypothesis that formal strategic planning processes would be positive related to firm performance given higher levels of power distance.

Nauheimer, who conducted a multi-country study of strategic planning processes in large companies using case studies based on information collected from nine large companies headquartered in the US, Switzerland and Germany, noted that since countries with low uncertainty avoidance such as the US have a higher tendency to take risks and are less accepting of rules and conformity it might be assumed that organizational planning systems in that country would be less formal and structured than those of firms based in countries such as Germany where uncertainty avoidance is high.[183] The results of her survey appeared to confirm these predictions by providing partial support for the proposition that "[s]trategic planning systems are subject to cultural differences" and that "[c]ompanies based in Anglo-American societies will exhibit flexible, non-formalized strategic planning systems and short term strategic plans . . . [while] . . . [c]ompanies based in Germany and/or Switzerland will tend to have a more formalized and structure planning process resulting in long-term strategic plans." Nauheimer also found that in Germany and Switzerland, where power distance was high and people accepted orders from managers and were extremely uncomfortable challenging those orders, strategic planning was very transparent albeit smooth. Finally, Nauheimer noted that US organizations tended to have a short-term orientation with respect to planning as opposed to the long-term orientation among German and Swiss firms due perhaps to differences in ownership structures of firms in the US, Germany and Switzerland.

§2:8 Governance

The system of corporate governance used in the Germanic countries—Germany, the Netherlands, Switzerland, Sweden and Austria—has been characterized as relatively oligarchic and focused on long-term industrial strategies supported by stable capital investment, robust governance procedures and enduring network relationships among key stakeholders such as shareholders, families and banks.[184] This type of system has facilitated success of German firms in industries that require long-term investment and creating and maintenance of high skill levels (e.g., luxury automobiles, precision

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[182] G. Hofstede, Culture's Consequences (2nd Ed.) (2001); P. Haiss, Cultural Influences on Strategic Planning (1990); and D. Brock, D. Barry and D. Thomas, "'Your Forward is Our Reverse, Your Right, Our Wrong': Rethinking Multinational Planning Processes in Light of National Culture", International Business Review, 9(6) (2000), 687.

[183] M. Nauheimer, On Studying the Strategic Planning Process in Large Companies: Theoretical Perspectives and Evidence (2009).

[184] The model typically associated with the Germanic countries has been described in a variety of ways including the insider, civil law, blockholder, bank-oriented, stakeholder-centered, coordinated or "Rhineland" model. R. Aguilera and G. Jackson, "The Cross-National Diversity of Corporate Governance: Dimensions and Determinants", Academy of Management Review, 28(3) (2003), 447.

instruments, chemicals and engineering). However, the model has been less successful in circumstances where flexibility is needed since the difficulties associated with modifying deep, long-standing relationships among different stakeholders slow the process of adjusting to changes in labor and product markets and creating or entering new businesses and industries.[185] The prevailing concept of the firm in the Germanic countries is "institutional", which means that firms are seen as autonomous economic units created and supported by strong and complex coalitions of diverse stakeholders including shareholders, managers, employees, credit providers (i.e., banks), suppliers and customers. Within this group of stakeholders the industrial banks are generally the major players and their role in providing capital tends to reduce the importance of stock and bond markets and thus the influence of outside investors. In fact, ownership concentration is moderate to high in the Germanic countries, another factor that makes it difficult for outside investor to meaningfully impact decision making, and there is no market for corporate control. Economic relationships evolve over a long-term planning horizon and the use of performance-based compensation is far less pronounced than in the Anglo-American countries.

The primary sources of law, regulation and practice relating to corporate governance for publicly listed companies in Switzerland are the Company Law; the Federal Stock Exchange and Securities Trading Act, which regulates exchanges, securities trading, market abuse and its sanctions, disclosure of shareholdings and public takeover offers relating to public companies; the Listing Rules of the Swiss stock exchanges, primarily the SIX Swiss Exchange AG ("SIX"), which include specific reporting and disclosure requirements designed to improve corporate transparency and governance; and the Swiss Code of Best Practice for Corporate Governance ("SCBP"), which was issued by an influential association of Swiss businesses and sets corporate governance standards in the form of non-binding recommendations in a wide range of areas including the definition of corporate governance, general shareholders' meetings, shareholders' rights to information and inspection, the composition of the board of directors and of board committees, the role of auditors and compensation for boards of directors and executive boards of public companies.[186]

While company law in Switzerland generally provides for a one-tier model, as a practical matter the responsibility for day-to-day management of Swiss companies is typically delegated from the board to senior management, thus creating a two-tier board structure. Board members are expected to represent and act in the best interests of the company, taking into account the long-term interests of the shareholders and the interests of other stakeholders such as creditors and employees of the company. Board members are also under an obligation to act in good faith and with due care to safeguard the interests of the company. By law, there are certain duties and responsibilities that the board cannot

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[185] Portions of the description in this section is adapted from F. Toonsi, "Cultures of Control: International Corporate Governance", QFinance.
[186] Portions of the overview in this section of Swiss corporate governance laws, regulations and guidelines applicable to listed companies is adapted from L. Olgiati, Switzerland, in Corporate Governance: Board Structures and Directors' Duties in 35 Jurisdictions Worldwide (2013), 216. Another useful summary of Swiss corporate governance is P. Kunz, Swiss Corporate Governance – An Overview (2009).

delegate or transfer. For example, regardless of any delegation of responsibilities to company executives or board committees, the entire board remains responsible for the ultimate management of the company and deciding upon corporate strategy and how the resources of the company should be allocated. Other responsibilities that cannot be delegated or transferred by the board include:

- Defining the fundamental organizational structure of the company;
- Establishing accounting and financial control systems, including an internal control system, and providing for financial planning as necessary for the management of the company and its businesses;
- Performing a risk assessment, the results of which should be described in the company's annual business report to its shareholders;
- Appointing and removing the management as well as granting of signing authority to the individuals authorized to act on behalf of the company;
- Ultimately monitoring the individuals entrusted with management responsibilities, in view of compliance with applicable law and regulations and the governance documents of the company;
- Preparing annual business reports to the shareholders and conducting general shareholders' meetings; and
- Notifying the bankruptcy court when the company's liabilities exceed its available assets.

Interestingly, Swiss company law does not require that Swiss companies have a minimum number of non-executive or independent directors; however, the SCBP recommends that a majority of the board should consist of non-executive members (i.e., persons who are not engaged in carrying out a line management function within the company) as a means for encouraging exchange of ideas and critical views between the board and executive management, and also provides for board positions of "lead director" and "independent director" to prevent and/or resolve potential conflicts of interest.[187] SIX, through its comprehensive "Directive on Information Relating to Corporate Governance", has imposed extensive disclosure requirements relating to the boards of SIX-listed companies including information on individual board members; the organization of the board and its committees, including the tasks and areas of responsibility of board members and their working methods; the split of responsibilities between board and executive management; information and control instruments with regard to senior management; and compensation of board members.

While Swiss company law does not include any mandatory requirements or restrictions relating to board committees, the SBCP recommends that listed companies establish audit, compensation and nomination committees and that all of the members of the audit committee and a majority of the members of the compensation committee should be non-executive, preferably independent, members. The controversial "Minder Initiative", which entered into force on January 1, 2014, implements a number of sweeping changes

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[187] For further discussion of the role of independent non-executive directors in Swiss corporate governance, see B. Speck and J. Tanega, "UK and Swiss Corporate Governance: Comparing the Role of Independent Non-Executive Directors", I.C.C.L.R. (2005), 468.

including requirements that the members of the compensation committee must be elected annually by the shareholders' meeting and that the shareholders be given a binding vote at each such meeting on the aggregate compensation of the board of directors and the senior management (i.e., "say-on-pay"). Prior to the implementation of the Minder initiative, many Swiss listed companies, following non-binding SBCP recommendations, submitted "compensation reports" to their shareholders' meetings and sometimes found, to the surprise of the directors and senior managers, that shareholders, led by increasingly activist institutional investors, would reject those reports when given the opportunity through consultative votes.

§2:9   Finance

Among the Swiss start-ups in a database compiled by the Swiss Start-Up Monitor, the most frequently mentioned sources of financing were the personal savings of the founders or money provided by their friends and family.[188] Beyond these internal sources of financing, companies also tapped into external sources in the following order in terms of frequency: business plan competitions, business angels, public or government agencies, venture capitalists and banks. When the financing received by the companies was analyzed by volume, venture capitalists came in first, followed by public or government agencies and corporate venture capitalists, and the volume of financing from friends and family came in fifth out of all the identified categories of sources. Grichnik et al. observed that these results confirmed the challenges that start-ups have in successfully navigating the vetting processes used by the venture capitalists. Analysis of venture capital financing by business sectors revealed that more than half of the investment funds went to ICT and medtech/diagnostics companies and that biotechnology/pharmaceutical companies also captured a significant amount of venture capital financing.[189] Companies that received venture capital funding tended to have higher rates of employee growth than start-ups that were primarily financed by business angels or other sources.[190]

Many of the companies participated in business plan competitions and expended a good deal of effort on those activities; however, the cash rewards were not high. Grichnik et al. argued that while Swiss entrepreneurs would obviously like to receive grants from their participation in business plan competitions, they also viewed such as competition as great opportunities to increase their business know-how—most of the competitions offered participants opportunities to join workshops, seminars and coaching sessions to improve their management skills—and expand their networks.[191]

A 2012 report issued by the Swiss Federal Department of Economic Affairs noted that Switzerland was well positioned with respect to economic competitiveness due in large part to the country's excellent innovation capacity and strong business culture; however, the report also cited various reports that the availability of venture capital in Switzerland

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[188] D. Grichnik, M. Fantetti and U. Gross, The Start-Up Landscape of Switzerland: First Insights from the Swiss Start-Up Monitor (2013), 22.
[189] Id. at 24.
[190] Id.
[191] Id. at 23.

was much lower than it should be and that there are certain weaknesses in the public funding of research and development, cooperation among small- and medium-sized enterprises ("SMEs") with other companies on innovation projects, and the competitiveness of the knowledge-intensive service sector.[192] With respect to venture capital funding, the report explained that while Switzerland is generally considered to have one of the best-developed venture capital industries in the world, only a small percentage of funding goes into early stage investments. Since Switzerland has not joined the other countries that have provide government funding for start-ups in order to make up for shortcomings in the private market, the report argued that it was imperative for Switzerland to take steps to address three potential gaps: an "innovation gap", which is the gap between what is the between what is discovered during R&D activities and what is eventually developed into commercial products; an "information gap", which occurs when investors do not have enough information about possible innovation projects and start-ups do not have sufficient information regarding potential financing sources; and, of course, a "funding gap", which refers to the unavailability of sufficient funding to successfully develop new product ideas for the market.

The authors of the Swiss Venture Capital Report 2013 reported that 90 rounds of venture capital financing had been identified in Switzerland for 2013 and that participants in those rounds received a total of CHF415.3 million.[193] The results for 2013 were a marked improvement over the previous year with the number of financed companies increasing by almost 50% and the total amount of invested funds increasing by more than 30%; however, the authors cautioned that 2012 had been a historically weak year for venture capital investment in Switzerland and while 2013 was an improvement it was still not an exceptionally good year for venture capital investments in the country. They also noted that the amounts invested per financing round were quite low when compared to other countries. Interest in early-stage and seed financing surged during 2013, with the number of early phase financing increasing by 50% and the amount of funding provided in those rounds almost tripling. The largest financing rounds involved life sciences start-ups.

§2:10   Human resources management

Switzerland has attracted a significant number of high qualified foreign-born professionals who bring needed talents and experiences to Swiss start-ups.[194] Davoine studied the Swiss career model and concluded that in Switzerland the German career model was dominant, meaning that primary emphasis was placed on professional technical-technical competence and firm-internal networking.[195] Davoine noted that

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[192] Swiss Federal Department of Economic Affairs, National Council Report on the Fulfillment of the Fässler (10.3076) and Noser (11.3429, 11.3430, 11.3431) Postulates: Venture Capital in Switzerland (June 2012).

[193] S. Kyora and T. Heimann, Swiss Venture Capital Report 2013 (February 2014). The Report was a joint effort from the news portal startupticker.ch and the Swiss Private Equity & Corporate Finance Association.

[194] A. Brandt, Why Switzerland Has Potential to Become Europe's Startup Hotspot (September 26, 2013).

[195] E. Davoine, Formation et Parcours Professionnel des Dirigeants d'Entreprise en Suisse, 3 Dossier de la Revue Economique et Sociale 89 (2005) (as cited and described in O. Schroter and E. Davioine, The Cross-

inter-firm mobility had traditionally been comparatively low in Switzerland but that this was changing and that movement between firms was gradually increasing.

Schroter and Davioine argued that Swiss enterprises had a "rather formal political culture", one in which expertise is often relied on as a key quality of supervisors and "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".[196] Schroter and Davioine referred to the Swiss version of corporatism as "liberal", and noted that it differed from other regular forms of corporatism in that it was not centrally focused on resolution of conflict between capital and labor.[197] They noted that while it is expected that labor will be integrated into formulation of human resources policies, trade unions in Switzerland, although wealthy, are structurally weak and essentially powerless, and that Swiss employers' associations have exerted greater power and influence in the policy formation process, thus leading to a comparatively weak standard of legal protection for employees. Schroter and Davioine identified several other characteristics of Switzerland's industrial relations system including a trade union code of conduct excluding strikes; a comparatively high degree of decentralization in wage bargaining; a high degree of coordination concerning managerial wage policy, which is provided for by employers' associations; and a decentralized system of industrial relations. According to Schroter and Davioine, Switzerland has traditionally ranked at or near the top of OECD countries with respect to the loss of the fewest number of working days to due to management-labor conflicts and they pointed out that while Switzerland is usually classified as "corporatist", the comparatively low coverage of bargaining contracts and union density means that, in practice, Switzerland is much closer to Anglo-Saxon countries such as the UK and US. German-style co-decisional rights do not exist in Switzerland; however, Swiss managers are legally obligated to inform their employees about the economic development of the firm and provide employees with some opportunities for participation or involvement, but not formal voting rights, in certain issues such as work security, a transfer of the firm or massive layoffs.

Schroter and Davionine observed that due to Switzerland's federal structure, there are many different systems of primary and secondary education; however, they noted that efforts have been made to coordinate and harmonize school systems to assure common standards across canton and regions.[198] Switzerland invests a significant percentage of its GDP in education and has a number of cantonal universities that are co-financed by the federation; two federal institutes of technology at Zurich (ETHZ) and Lausanne (EPFL), each of which have achieved recognition as world-class research institutes; several federally recognized technical colleges of higher education; and a comprehensive

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National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries (2009), 12).

[196] O. Schroter and E. Davioine, The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries (2009), 12.

[197] The discussion in this paragraph is adapted from O. Schroter and E. Davioine, The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries (2009), 12-13.

[198] The discussion in this paragraph is adapted from O. Schroter and E. Davioine, The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries (2009), 13-15.

federally administrated system of dual vocational training. Schroter and Davioine explained that the dual vocational training courses, the content of which is collaboratively developed by employers, employee associations and the government, are quite similar to those found in Germany and Austria and have a workplace, rather than school, focus. According to Schroter and Davioine, the strong employer involvement in the design of the curriculum and the implementation of the courses contributes to the practical applicability of the contents incorporated into the courses. In other words, dual vocational training in Switzerland is strongly focused on teaching workplace and job-specific skills, and Schroter and Davioine also reported that more and more attention is being paid to "further education" (i.e., ongoing training of employees after they have completed the initial vocational training and begun working). While there has been an increasing tendency among young people toward a general education path in recent years, dual vocational training remains extremely important in Switzerland and is greatly relied upon by employers.[199]

Arvanitis et al. conducted a survey among Swiss firms to measure the impact of various human resources management (HRM) practices on both their propensity to innovate and the success of their innovation as represented by sales of innovative products.[200] The specific HRM practices fell into four categories, including workplace organization (e.g., number of hierarchical levels, extent of decentralization); working time management (e.g., flexibility of the work schedule, extent of part-time employment); incentive pay (e.g., individual performance salary, group performance salary); and training intensity. The researchers found that variables representing workplace organization, with the exception of the variable for the decrease of the number of hierarchical levels, showed highly significantly positive associations with innovation propensity, and that new workplace organization practices were also important for innovation success, albeit less influential than with respect to propensity for innovation. Intensity of further training was also significantly positively associated with innovation success, but not with innovation propensity. Finally, working time management practices and incentive payment schemes appeared to have only a small impact on both innovation propensity and innovation success. Arvanitis et al. concluded that the linkages between innovative HRM practices and innovation propensity were stronger than the linkages between those practices and innovation success and commented that this result might be attributable to the fact that innovation success, as measured by actual sales, is influenced by factors not studied in their survey such as production and marketing skills.

According to a survey of Swiss workers conducted by Towers Watson in 2012 the two most important criteria for them when selecting a prospective employer were a high level of employee autonomy and good job security.[201] Other important factors included challenging work, base pay/salary and convenience of the work location; however,

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[199] Schroter and Davionine reported that dual vocational training was more prevalent in German-speaking Switzerland than in the French- and Italian-speaking regions. See O. Schroter and E. Davioine, The Cross-National Transfer of HRM Practices in Multinational Companies Towards their Swiss Subsidiaries (2009), 15.

[200] S. Arvanitis, F. Seliger and T. Stucki, The Relative Importance of Human Resource Management Practices for a Firm's Innovation Performance (September 2013).

[201] Towers Watson, Global Workforce Study 2012 (2012).

anxiety about job security clearly remained important among the Swiss even as the country one recovering fairly well from the financial crises of the prior years. When the focus of the questions turned to identifying the "top drivers of retention", the Swiss were most concerned about base pay levels and the transparency and fairness of the pay system. While bonuses and long-term incentives were also of interest to Swiss workers, they were less important than the fundamental issue of base pay/salary. Other factors that were particularly influential to Swiss employees with respect to remaining with their employer included opportunities for career advancement, trust and confidence in senior leadership, the employee's relationship with his or her supervisor/manager and job security. The percentage of Swiss workers who were "sustainably engaged" was higher than the European average, yet still significantly lower than the global averages found among Towers Watson surveys and the Towers Watson report admonished Swiss employers to proactively address frustrations among their workers about lack of the right resources and necessary support. When polled about the top drivers of sustainable engagement, the Swiss workers identified leadership; supervision; stress, balance and workload and communication as being most important.

§2:11 Product development and commercialization

A description of the Swiss economy published by the country's Federal Department of Foreign Affairs noted that it was not built on mass production, but on high-quality work and well-trained workers, and that many businesses have elected to pursue a "niche strategy" and focus on a small range of high quality products, a choice that has allowed even the smallest Swiss enterprises to become world leaders in their own specialized product areas. Haour also noted that Swiss small- and medium-sized enterprises ("SMEs") compete by selling high value offerings in narrow market segments, providing quality and "demonstrating a strong and *real* customer-orientation".[202] In order for them to be able to compete successfully based on quality, Swiss companies have had to be make substantial investments in R&D and, in fact, the Department of Foreign Affairs reported that a higher percentage of the Swiss workforce is involved in R&D than in other industrialized countries. Switzerland spends a significant percentage of its GNP on R&D; however, a large portion of the investment in R&D comes from the private sector and Haour observed that in Switzerland "[m]arket-oriented innovation is considered to be the realm of the private sector and the government has nothing to do with it, other than by providing a supporting environment".[203]

Haour commented that Swiss SMEs have been slower to engage with local universities than their counterparts in other European countries, such as Germany, and thus may be missing out on opportunities to access new technologies that could lead to new innovative products; however, Haour pointed out that the situation may be changing as the number of technology-based spinouts from universities has been gradually increasing

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[202] G. Haour, Innovative Switzerland.

[203] Id. Statistics provided by Haour indicated that as of the mid-2000s Switzerland was, along with the Japan, the country with the lowest percentage of its national investments in R&D financed by the public taxpayers among the OECD countries (approximately 20%, as opposed to 40% - 50% in most other countries).

in recent years.[204] In addition, the government has established technology transfer offices in the main public universities staffed with high quality specialists trained in facilitating the transfer of the results of academic research to private firms that can proceed with identifying and exploiting market-based uses of the technologies.

§2:12 Globalization

Switzerland ranked fifth overall in the 2012 Globalization Index compiled by Ernst & Young, which noted that the country's main strength was in movement of labor and that it had been improving significantly with respect to exchange of technology and ideas.[205] Haour noted that small- and medium-sized enterprises ("SMEs") in Switzerland benefit significant from their easy access to multinational companies, which allows them to efficiently sell their products to companies that will, in turn, use or sell them in foreign markets.[206] Baumgartner observed that while Swiss SMEs may lack the resources to develop a strong and unique brand on their own, they can take advantage of the well-known and highly-regarded "Swiss made" label that is associated with attributes such as quality, reliability and leading-edge expertise worldwide and thus makes it easier for Swiss SMEs to gain access to new foreign markets.[207]

In a report on the experiences of Swiss SMEs offshoring to India, Sievers listed several particular advantages of Swiss companies with respect to globalization including a "business friendly environment", specialized export industries oriented toward high capital investment and an emphasis on promoting continuous quality and technology improvement.[208] Sievers noted that Swiss companies have typically focused on high value added and superior quality products as selected quality enhancement strategies over price sensitivity approaches when establishing their competitive positions. Sievers also reported that Swiss companies have often elected to market and distribute their products in foreign markets from their home offices but that local production in foreign markets has also become an option when the companies have completed careful site assessments and pulled together an experienced management team. Sievers cited comments made by Hess, as chairman of the Swiss Mechanical and Electrical Engineering Industries, for the following list of "success factors" for Swiss firms in Asia and India: a good product line which can be exported to existing and new markets; a good channel to the market (e.g., through a trusted agent network, diversified markets); continued innovation of processes and products through continued research effort; quality and competitiveness (also in pricing); and leadership in specialized markets and product niches. Another study on market entry challenges for Swiss companies in India emphasized the need for Swiss firms to carefully evaluate market potential and the steps that need to be taken to adapt their product portfolio for the Indian market, engage in rigorous financial planning,

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[204] Id.

[205] Ernst & Young, Country Profiles: A Further Look into the Top 10 Performing Economies in the 2012 Globalization Index (January 2013). The Globalization Index takes into account openness to trade, capital flows, exchange of technology and idea, labor movements and cultural integration.

[206] G. Haour, Innovative Switzerland.

[207] As quoted in J. Bolli and S. Mani, Switzerland—Focus on Globalization: Opportunities and Risks for SMEs (June 17, 2010).

[208] C. Sievers, The Experience of Swiss Companies Offshoring to Asia (India) (2013).

develop a strong and trustworthy leadership team in India and establish and maintain quality management processes in all local operations.[209] The same study noted that the most difficult challenges for Swiss firms typically arise with respect to adaption of their product portfolio, deciding whether to enter the market independently or with a local partner, understanding the "Indian way of doing business" and protecting their technology and intellectual properties.

Volery collected and analyzed data from 69 senior executives of small- and medium-sized enterprises (SMEs) in Switzerland regarding various aspects of the internationalization experiences of their firms.[210] A little over one-third of the firms were not currently exporting any goods or services and had no interest in developing export activities. Another 10% of the firms were also not currently exporting; however, they did have an interest in developing export activities. 25% of the firms exported occasionally, generally limited their activities to neighboring and similar markets, and the remaining 30% of the firms were regular exporters whose products and services reached different markets all around the world. Among the firms that were regular exporters, a substantial part of their sales and production were dependent on foreign markets. Volery found that the Swiss relied heavily on subcontractors located in foreign markets (i.e., sales agents and/or distributors) for assistance in carrying out their export strategies; however, while almost two-thirds of the firms collaborated with local partners, more than half engaged in some form of direct export and there was also evidence of reliance on commercial and production subsidiaries, joint ventures and licensing agreements. The data collected by Volery confirmed several hypotheses regarding internationalization among the firms such as manufacturing firms were more likely to be exporters and report a higher intensity of internationalization, SMEs using multiple modes of internationalization would report a higher intensity of internationalization, there was a positive and significant relationship between owner–manager international business skills and SME internationalization and there was a positive and significant relationship between the owner-manager's international orientation and SME internationalization.

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[209] India Competence Centre, University of St. Gallen, The Bumpy Road to India: Market Challenges for Swiss Companies (2011).
[210] T. Volery, "Managing the Challenges of Globalization: Evidence from Swiss Small and Medium-Sized Enterprise", in L. Dana, I. Welpe and M. Han (Eds.), Handbook of Research on European Business and Entrepreneurship: Towards a Theory of Internationalization (2008), 636.