

Globalisation and the convergence to US-style industrial relations? German and US affiliates in the UK in comparison¹

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Abstract: Interest has grown into the significance of the country-of-origin impact on the employment relations (ER) approaches in international subsidiaries of Multinational Companies (MNC). In this article, a comparative cross-sectional analysis of German subsidiaries with indigenous UK firms will be provided. Central issues are to what extent do German MNCs in deregulated Anglo-American industrial relations settings draw on the German ER model, adjust to the host-country context or adopt current 'best practice' prescriptions frequently associated with leading US MNC. Here, the key questions are how, and to what extent do differential industry-specific forces interrelate, firstly, with country-of-origin effects and, secondly, with pressures to adopt 'best practice' approaches to shape subsidiary ER outcomes?

Key words: Industrial relations, Multinational Companies, Internationalisation

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¹ This article is based on a research project on employment relations and subsidiary performance of German MNCs in the UK, funded by the Hans-Böckler-Foundation, Germany.

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1. Introduction

The way multinational companies (MNCs) are shaped by their institutional environments and the impact of such forces on the cross-border diffusion of these practices have attracted increasing attention, including the impact of such diffusion on the development of both the home and country business systems (BS) and the resulting public policy implications. This has led to an increasing focus in the literature on the importance of country-of-origin effects on the management of MNCs (Buckley and Carter 2004, Mubambi and Navarra 2002). There has also been a growing appreciation that such country-specific effects interact with globalisation pressures to conform to some form of ‘best practice’ template. Such pressures are connected with the wider and deeper integration of MNCs into the world economy and the associated reconfiguration of MNCs’ strategies, structures, policies and business practices towards more globally or regionally integrated approaches (Dunning 2000, UNCTAD 2002).

At the same time there is a growing recognition that pressures for international integration do not constitute a universal force, but are to considerable extent contingent upon the nature of the industry, in particular on the nature of industry internationalisation (Marginson *et al.* 1995, Pak *et al.* 2005). This draws attention to the differential impact of industry forces on international approaches in MNCs. Firstly, pressures for international integration are particularly pertinent in highly internationalised industries. Secondly, even in highly internationalised industries, the notion of ‘best practice’ is not universal across all industries, but takes an industry-specific configuration, reflecting *inter alia* industry-specific differentials in areas such as labour markets, human capital, knowledge and technology intensity (Dunning 2000, Nachum and Zaher 2005). Thus, both the level and type of industry internationalisation can be expected to influence the nature and strength of cross-border policy diffusion in MNCs.

In this context, an interest has grown into the significance of the country-of-origin impact on the employment relations (ER) approaches in international subsidiaries of MNCs. An important line of inquiry focuses on the international ER approaches of MNCs with home bases in highly regulated and strongly institutionalised industrial relations (IR) contexts, such as Germany, that

have subsidiaries in deregulated and weakly institutionalised Anglo-American IR settings, such as the UK. In light, firstly, of the pressures in the German BS to reform in response to changes in the international economy and, secondly, of the frequently voiced contention that traditional German ER practices and approaches do not provide a suitable role model for effective operation in the global arena (Streeck 1997), the permissive UK host-country IR context, which provides MNCs with great latitude in the design of subsidiary ER patterns, may be an attractive location for German MNCs to ‘experiment with’ new ER patterns.

Against this background, central issues are to what extent, if any, do German MNCs in deregulated Anglo-American IR settings draw on the German ER model, adjust to the host-country context or adopt current ‘best practice’ prescriptions frequently associated with leading US MNCs (Chen *et al.* 2005). In this connection, the key questions are how, and to what extent, do differential industry-specific forces – in terms of the level and type of industry internationalisation – interrelate, firstly, with country-of-origin effects and, secondly, with pressures to adopt ‘best practice’ approaches to shape subsidiary ER outcomes? None of the existing quantitative studies investigating cross-border ER transfer issues has explicitly investigated the variability of the relative importance and nature of the country-of-origin effect across different subsets of industries. Although existing comparative studies (e.g. Guest and Hoque 1996, Walsh 2001) do include broad industry dummies in the regression equations, they focus purely on the average nationality effect. Thus, the analysis is prematurely halted.

By addressing this shortcoming, this paper aims to shed light on the issues raised above on the relative importance, nature and variability of the country-of-origin impact on ER approaches in German subsidiaries. With the operations of German MNCs in permissive and deregulated Anglo-Saxon host country contexts having frequently ascribed a vanguard role in influencing ER in German MNCs at their home locations and given the importance of German MNCs to influence industrial relations in Germany and the wider German BS, the findings of this study have important implications for policies of the German industrial relations actors and public policy.

2. Key employment relations policy choices

Key ER policy choices can be analysed along two dimensions, which reflect management’s relative emphasis on the collective and direct employee involvement dimension (Guest and Conway 1999). The former involves union and non-union channels and captures the extent to which management’s ER priorities are directed towards representative systems. The latter relates to the extent to which management’s ER priorities are focused on the level of the individual employee. Direct involvement is facilitated through a variety of direct information-sharing, consultation and participation schemes. An emphasis on the direct ER dimension is connected with the development of HRM-style high-involvement systems (HISs) that entail the integration of direct ER practices into a comprehensive system (Edwards and Wright 2001). Combining the relative emphasis on the two ER dimension results in four broad ER approaches.

Collective approaches can take two routes: the traditional collective approach, which comprises the single channel representation via collective structures (collective arrangements but no HIS), or the dual approach, which combines both collective structures and direct employee involvement in a single system (collective arrangements and HIS). The dual approach constitutes a hybrid

model. Individualistic ER approaches may proceed along two avenues: the 'high road' individualised direct involvement approach (HIS, but no collective arrangements) or the 'low road' minimalist approach (no HIS and no collective arrangements). The former is usually associated with the mainstream untristic US HRM literature. It may also be viewed as an alternative to collective ER by emphasising direct voice instead of collective voice. The minimalist variant of individualised ER, which involves labour-cost minimisation and external numerical labour flexibility, is based on the assertion of management's prerogative and, subsequently, the absence of any meaningful employee involvement.

3. Employment relations in multinational companies

Within the broadly institutionalist approach to ER in MNCs, a range of influences have been identified. In this connection, a useful framework for the analysis of the relative influence of the country-of-origin effect is Edwards and Ferner's (2002) 'four forces' model. In this model, subsidiary ER are influenced by a complex interplay between home- and host-country effects, dominance effects and organizational effects arising from pressures for international integration. Importantly, the model highlights that the country-of-origin effect is not *tout court* but a matter of degree and it is dynamic in nature.

The country-of-origin effect has been connected to the embeddedness of MNCs in their home-country BS, including the IR component (Whitley 1999). The national institutional frameworks are said to shape MNC behaviour, including the way MNCs manage their international activities, such as ER issues (Ferner 1997). The encompassing institutional infrastructure of the German IR systems, involving a high degree of regulation has traditionally imposed a relatively uniform ER template on companies. This has led to a strongly collective ER orientation among German parent companies based on the traditional collective ER approach. The IR system has been regarded as providing the basis for a co-operative ER approach, delivering a competitive advantage to German firms (Hall and Soskice 2001).

Partly as a result of heightened international competition, the employers' consensus on the benefits of the traditional ER model has weakened since the early 1990s. A series of reforms to the IR system now allows for more flexible ER patterns in German MNCs (Streeck and Hassel 2003). However, the majority of German investors in the UK and elsewhere belong to the main German export industries; these firms, in particular, are said to benefit from the specific factors of the German model (Hall and Soskice 2001). Thus, there are *a priori* reasons for a pronounced diffusion of home country-influenced, collectively oriented ER patterns to overseas subsidiaries.

The dominance effect is connected to the hierarchy of economies in the world economy (Smith and Meiskins 1995). Those in a dominant position evolve business and management approaches that are seen as the global best practice. This is said to induce emulation in other countries. In the contemporary context, this relates to the competitive advantages associated with the business and ER models of leading MNCs that originate from the US economy, which has a strong economic record and which occupies a dominant position in the international economy. In the ER spheres, such global best practice is frequently connected with the individualistic 'high road' approach (Chen *et al.* 2005), partly because of the supposed performance advantages attributed to it (Appelbaum *et al.* 2000).

One strand of the literature ascertains that the dominance effect has set in motion a shift towards Anglo-American business, management and ER models akin to those in leading US MNCs among MNCs from non-dominant BSs, such as Germany (Whittington and Mayer 2000). In turn, this could imply attempts to pursue individualistic HIS-based ‘high road’ ER approaches in their international sites. However, much of the evidence points to nationally distinct pathways that incorporate US-style solutions into existing business and management models (Carr 2005, Pauly and Reich 1997). In the ER area, there has indeed been growing interest among German MNCs in US-style HRM innovations (Kurdelbusch 2002). Although the development of comprehensive direct HIS remains so far limited (Muller 1999), the increasing adoption of direct-involvement practices points to an embryonic dual approach in many German MNCs that incorporates US-style ER innovations into the existing representative structures of labour.

Within the context of the more flexible IR framework made possible by recent reforms, emerging dualistic ER patterns in many German MNCs may be described as a flexible collective approach with a comprehensive direct employee involvement dimension rather than as a wholesale shift towards US-style individualistic ER approaches. The interaction between home-country and dominance effects in German firms’ overseas subsidiaries may, therefore, comprise to a significant degree nationally distinct hybrid solutions in the form of dualistic ER. These dualistic approaches embody the transfer of the collective ER orientation of the home-country model and the selective appropriation of the global best-practice prescriptions in the form of HIS.

The extent to which home-country and dominance effects shape subsidiary ER approaches is also influenced by the nature of the IR context of the host-country BS. The permissive IR setting of the UK BS, where MNCs face relatively few institutional and regulatory barriers in the design of the ER systems in their subsidiaries, provides thus a wide margin for the home-country and/or the dominance effect to exert an influence. The UK setting provides an attractive location for German MNCs to try out US-style ER innovations. Although this may take the form of the individualistic ‘high road’ approach, recent developments in ER patterns in many German MNCs, as outlined above, suggest that this may also follow a German-specific pathway to incorporate US-style ER innovations within collective ER patterns. This would reflect the emerging dual approach in German parent companies.

Alternatively, German MNCs operating in host countries, such as the UK, with permissive IR regimes may drop what they perceive as the constraining elements of the home-country model and pursue distinct local strategies, in particular, those based on the cost-minimising ‘low road’ approach to externalize flexibility and cost pressures. Conversely, MNCs may pursue a non-strategic approach to international ER with subsidiary ER patterns simply reflecting an adaptation to the host-country context and the adoption of local practices. In this connection, ER approaches in the UK private sector are dominated by individualistic ER patterns with collective ER approaches being confined to a minority of firms (WERS 1998). Although the dissemination of direct-involvement practices has become increasingly common, the development of HISs remains relatively rare. These are, however, more pronounced in the UK than in Germany (Gill and Krieger 2000). Thus, the ‘low road’ approach is a relatively common feature of ER in the UK (WERS 1998). However, the generally co-operative management style and ER ethos – expressed through collective or direct channels – in German parent companies may spill-over to their overseas workplaces. A country-of-origin trait at this, more intangible level may imply a relatively low emphasis on the ‘low road’ approach in German subsidiaries.

Most of the quantitative studies into ER in German subsidiaries in Anglo-American host-country contexts have found no distinctively German ER patterns, but rather an adaptation to local practices (Child *et al.* 2001, Guest and Hoque 1996, Innes and Morris 1995). However, some studies highlight a somewhat more pronounced country-of-origin effect in relation to the incidence of collective ER (Cooke 2001), as well as a distinctive German pathway to incorporate the US-style best-practice elements in the form of a dualistic ER approach (Tüselmann *et al.* 2006). Furthermore, several qualitative studies indicate a low incidence of the 'low road' approach and point to a transfer of the co-operative ethos of the German ER model (Ferner *et al.* 2001, Dickmann, 2003). Although the empirical evidence remains somewhat inconclusive and although many existing empirical studies have limitations, the following hypothesis emerges in relation to the average country-of-origin effect on the basis of the foregoing discussion.

H1: *ER approaches in UK-based subsidiaries of German MNCs exhibit a distinctive country-of-origin effect with German subsidiaries being more likely to operate with collective approaches and being less likely to pursue individualistic approaches compared to indigenous UK firms.*

The degree to which MNCs are subject to competitive pressures for international integration shapes the relative strength of the home-country, host-country and dominance effects in their subsidiaries. Pressures for international integration arise from the imperative for effective international operation, which in turn encourages a greater degree of co-ordination and integration of cross-border activity and the international division of labour within the MNC. This creates incentives to develop common policies and approaches across the international operations, including in the ER area, and thus a greater scope for the home-country effect or the dominance effect to exert an influence. The four forces model draws attention to the differential impact of industry characteristics on the international ER approaches of MNCs.

Competitive pressures for international integration do not constitute a universal force, but are to a considerable extent contingent upon the nature of the industry, in particular on the degree global exposure (Dunning 2000). MNCs operating in less internationalised industry contexts face higher pressures for local responsiveness and lower pressures for the international integration of activities, with subsequent pressures for local isomorphism suggesting more country-centred strategies and local adaptation. In turn, this may imply a relatively muted country-of-origin imprint in subsidiary ER and a greater emphasis on locally flavoured ER approaches. Pressures for international integration are particularly pertinent in highly internationalised industries. Here, greater cross-border integration can be achieved by using either the home-country model or the 'best practice' template. It is frequently assumed that the pressures for international integration favour the latter.

However, even in highly internationalised industries the notion of 'best practice' has no universal meaning, but takes an industry-specific configuration, reflecting *inter alia* industry-specific differentials in labour markets, human capital, knowledge and technology intensity. Indeed, a host of studies has highlighted the differential impact of industry differences along these dimensions on international business activities (Dunning and Lunder 1998, Pak *et al.* 2005). MNCs in more technology-, knowledge- and human capital-intensive industries are more reliant on a relatively stable and skilled workforce. In this type of industry, comprehensive employee

voice and participation systems, investment in training and the associated longer-term employment relationships underpin the pursuit of a productivity-orientated international competitive strategy, which in turn requires ER models that buttress such strategies and approaches. It is frequently assumed that the terms of international competition in this type of highly internationalised industry exert pressures to converge on the individualistic ‘high road’ ER patterns akin to those in leading US high-tech multinationals.

However, in situations where the IR system – in combination with other elements of the national BS – has shaped collective ER patterns that enable and support the internationally successful skills-intensive strategies (Hall and Soskice 2001, Streeck 1992), MNCs originating from such home-country settings and that operate in this type of industry may have an incentive to achieve greater international integration on the basis of their home-country model. In this constellation the dominance effect may interact with the home-country effect in a way that entails the incorporation of US-type innovations into the collective ER approach with a subsequent greater emphasis on a dualistic commitment to ER. Thus, even within the same type of industry the notion of industry-specific ‘best practice’ does not necessarily imply the ‘best way’ solution, but comprises nationally imbued functional equivalents. In more labour-intensive and low-technology industries, a numerical labour-flexibility strategy based on a cost-minimising ‘low road’ ER approach may represent a form of ‘best practice’. However, the industry effects in terms of the level and type of industry internationalisation do not work in isolation, but interact with the other key influences in a complex way in determining ER outcomes in overseas subsidiaries.

The average German MNC has traditionally been characterised as relatively decentralised with lower levels of parental control compared to the average US MNC (Child *et al.* 2001). Yet, there is evidence that German MNCs, in industries with a high degree of global exposure, respond to the pressures of increasing international competition by reviewing their structures, systems and practices along the lines of their Anglo-American competitors – albeit in many cases within a German-specific pathway (Carr 2005, Pauly and Reich 1997), as well as putting a greater emphasis on internationally integrated strategies and approaches (Ferner *et al.* 2001).

There are reasons to expect stronger home-country and dominance ER effects in subsidiaries of German MNCs that compete in highly internationalised, skills-intensive industries (using skills intensity as common denominator for the highly correlated concepts of technology, knowledge and human-capital intensity). This is because a large section of German export industries compete on the basis of a skills-based productivity-orientated strategy. The German IR system has been regarded as providing the basis for a co-operative collective ER approach that underpins and supports such a strategy. Many of these industries are not only export intensive but also FDI intensive. German FDI in these industries is mainly driven to exploit ownership advantages (Barrel and Pain 1999, McDonald *et al.* 2003). The German IR system has been ascribed an important contributory role in developing and sustaining such advantages (Hall and Soskice 2001). It is, in particular, German MNCs in highly internationalised, skills-intensive industries that therefore benefit from the specific conditions of the German IR system. Thus, German MNCs in these industries may have an incentive to achieve international integration on the basis of their home-country model, whilst accommodating pressures arising from the dominance effect within their collective ER model in the form of the incorporation of innovative elements of the US model, such as HISs. As outlined above, such dualistic ER approaches are already apparent in

an embryonic form in the home-country sites of these German MNCs; they should be most visible in their subsidiaries in permissive IR host-country contexts.

German MNCs that compete in highly internationalised industries that are characterised by high labour intensity and low skills intensity can be expected to display a more pronounced preference for the 'low road' ER approach in their international operations. Although the particularities of the German institutional and regulatory IR framework have led to collective ER in many of these parent companies (IAB 2003), compared to their counterparts in skills-intensive industries, these can be assumed to benefit to a lower extent from the particularities of the German IR system. In these cases, greater international integration may entail a strategic desire to externalise labour-cost and numerical flexibility pressures and to pursue the 'low road' variant of the Anglo-American ER model in permissive host-country IR contexts. On the other hand, the findings of a pervasive country-of-origin imprint in German subsidiaries at the more abstract level in the form of a transfer of the generally co-operative management style and ER ethos in Germany may imply a more muted incidence of the 'low road approach. Although the incidence of this approach among German subsidiaries in less skills-intensive industries may well be lower compared to subsidiaries of MNCs of other nationalities that operate in such industry context, it can still be expected to be more pronounced compared to other German subsidiaries.

There have been no quantitative studies that have explicitly investigated the differential influence of both the level and type of industry internationalisation on subsidiary ER patterns. Yet, a recent survey-based study of German subsidiaries in the UK, though employing only a uni-dimensional industry categorization, highlights significant variations in the ER approaches of German subsidiaries along the degree of industry internationalisation (Tüselmann *et al.* 2006). On the basis of the foregoing discussion the following hypotheses emerge.

H2: *UK-based subsidiaries of German MNCs that compete in highly internationalised skills-intensive industries are more likely to exhibit a dualistic ER approach compared to their German-owned counterparts in less internationalised industries.*

H3: *UK-based subsidiaries of German MNCs that operate in highly internationalised less skills-intensive industries are more likely to deploy the individualistic 'low road' ER approach compared to German-owned subsidiaries in less internationalised industries.*

4. Data and methodology

The study is based on a representative survey of US subsidiaries in the UK and private-sector UK-owned multi-establishment firms with at least 25 employees. The data were collected using a pre-tested structured questionnaire that was sent to the managing directors of the sampled firms. The sampling frames were constructed from a range of public sources. A stratified random sampling method was used to obtain representative samples according to size and industry stratification criteria. Two representative samples of 900 establishments for each nationality were drawn. This sampling design was employed in order to ensure that the sufficiency requirements for multivariate data analysis were met (Long 1997) for the pooled sample of UK- and German-owned establishments. In other words, the research was designed to ensure that sufficiently high response rates from both nationality groups were obtained to avoid potential bias in the

regression analyses, which can result from heavily skewed nationality groups, whilst also employing at the same time the conventional size/industry stratification criterion.

The response rates were 20.7 per cent and 33.2 per cent for UK- and German-owned establishments, respectively. The response rate for the combined samples was 27.0 per cent; this compares well with similar survey-based studies. Standard checks for representativeness for both nationality samples proved satisfactory and tests for non-response bias for both nationality samples suggested that the study's empirical work is not influenced by non-response bias to a significant extent. The data of both surveys were pooled for subsequent statistical analysis.

The classification of ER dimensions and approaches is based on the typologies in the previous section. These were defined using dichotomous measures. The construction of the collective dimension was based on the incidence of trade union recognition and/or non-union representative bodies. The direct ER dimension was defined by the presence of a HIS. In the absence of a commonly agreed definition, list of practices and measurement approach, a broad working definition for HISs was adopted. Following Edwards and Wright (2001), this entailed a combination of direct participation, consultation and information-sharing schemes. The list of practices comprised a series of items that are consistent with the theoretical and empirical research. The items include: partly autonomous teamwork, quality circles/problem-solving groups, attitude surveys, suggestion schemes, regular meetings, team briefings, newsletters and the systematic use of the management chain. A weighted composite index was constructed using the incidence of these practices and the differential degree of employee involvement connected with them. In order to determine which of the respondents had a HIS in place, the mean of the composite index was calculated. Those respondents above the mean were defined as having a HIS in place. To verify the suitability of the weighting scheme that was used, sensitivity analysis using alternative scoring systems produced similar results. The Cronbach's alpha reliability coefficients for the collective and direct employee involvement dimension were 0.72 and 0.69, respectively. On the basis of these classifications, establishments were divided into the four broad ER approaches as outlined in the previous section.

The level of the internationalisation of industries was measured along the lines of the UNCTAD Transnationality Index (UNCTAD 2006): the ratio of foreign to total sales, the ratio of foreign to total employment and the ratio of outward FDI to gross fixed-capital formation. An internationalisation index was calculated as the average of these three ratios for each industry at the NACE Division level. From this, the average for all industries was calculated. Industries above the index average were categorised as highly internationalised. The skills intensity of industries was ascertained by using the ILO International Standard Classification of Occupations (ISCO) and the ISCO Skill Level definition (ILO 1997). Industries with an above-average share of highly and intermediate skilled employees were defined as skills intensive. On this basis, highly internationalised industries were further differentiated as skills or less skills intensive.

The ER approaches were treated as dependent variables. Given their dichotomous nature, the hypotheses were tested by logistic regression models. Besides the explanatory variables of interest, a range of additional right hand-side variables, based on the findings of relevant previous studies were included in the regression estimates as control variables (see *Notes* under Table 1). In order to avoid the potential violation of the assumption of a linear relationship between continuous predictors and the logit transformation of the dependent variable, all continuous

variables were transformed into categorical variables. Relevant likelihood ratio tests in relation to omitted variables and for data pooling raised no concerns. Checks for collinearity between the independent variables indicated no multicollinearity problems. Additionally, the robustness of the logistic regression calculations was tested by moderately altering the set of control variables and by running probit instead of logistic regressions. Unless indicated otherwise, the respective regression results concerning the explanatory variables of interest are robust.

5. Results and discussion

The results of the regression estimates for the pooled sample and the German sample are presented in Table 1 and 2, respectively. The results in these tables show the extent to which the explanatory variables of interest, i.e. nationality of ownership in the pooled sample and industry internationalisation in the German sample, are significant after allowing for the influence of the control variables. Overall, the empirical models perform well. All model χ^2 s are significant at either the one or five-per-cent level. This demonstrates that all regressions are meaningful models. The relatively high values for the pseudo R^2 s (with the possible exception of the third model in Table 1) are another indication for the quality of the regression models. The pseudo R^2 s are, overall, good for logistic models and are, in part, higher than those in comparable studies.

5.1 Comparative analysis of German- and UK-owned firms

The results in Table 1 provide only partial support for the **H1**. Contrary to expectations, indigenous UK firms rather than German-owned firms are highly significantly more likely to exhibit the traditional collective ER approach. Conversely, German subsidiaries are significantly more likely to operate with collective ER in the form of the dual approach compared to UK-owned firms. This nationality difference suggests that collective ER patterns in German subsidiaries are less defined by the conventional stereotype German approach. It does, however, suggest that the interaction between home-country and dominance effects points to a nationally distinct hybrid solution in the form of a selective appropriation of the progressive element of the Anglo-American ‘high road’ approach within collective ER structures. These findings indicate that there might indeed be a German-specific pathway to incorporate US-style ER innovations. In view of the increasing interest in many German parent companies in direct-involvement practices – even if the development of full-blown HIS remains relatively rare – this trend points to embryonic dualistic ER patterns in Germany. The findings suggest that ER patterns in UK-based German firms may, to a degree, reflect an emerging dual approach in the German workplaces. Although the dual approach is significantly associated with German subsidiaries, the magnitude of its dissemination among German subsidiaries cautions against generalisations. While this approach is more prevalent in German subsidiaries compared to UK firms, only one third of German-owned firms have developed a dual ER approach. Thus, the incorporation of the so-called ‘best practice’ element of the US-style individualistic ‘high road’ approach into collective ER patterns is a distinctive, but not a common, feature among German firms in the UK.

Table 1: Nationality-of-ownership differences in employment relations approaches

Dependent Variable	Mean		Coefficient (standard error in brackets)	Model χ^2	R ²
	UK	G			
Traditional Collective Approach	.19	.09	-.946 (.487)**	56.978	.302
Dual Approach	.16	.33	.645 (.262)**	97.853	.366
Individualistic ‘High Road’ Approach	.28	.31	.151 (.235)	65.283	.154
Individualistic ‘Low Road’ Approach	.36	.25	-.413 (.254)*	69.791	.276

Notes:

- (i) Logistic regressions. R² is pseudo.
(ii) Number of observations: 518
(iii) Coefficients are 1 – 0 variable: 1 is for German-owned and 0 is for UK-owned firms.
(iv) Controls: establishment size (5 categories), industry (based on NACE classification at Division level, collapsed into 7 categories), region (based on Government Official Region classification, collapsed into 4 categories), share of skilled labour (based on ILO classification system, 4 categories), share of part-time workers (3 categories), whether greenfield site, whether main market abroad, establishment age (5 categories).
(v) * significant at 10% level, ** significant at 5% level, *** significant at 1% level.

There is little evidence with regard the proposed nationality difference in **H1** in relation to the individualistic ER approaches. German subsidiaries are as likely to pursue the individualistic ‘high road’ approach compared to their UK counterparts and only weakly significantly less likely to adopt the ‘low road’ approach. Against the background of the collective ER orientation in the overwhelming majority of German MNCs, these findings suggest – as a first approximation – a strong host-country effect among a considerable section of German-owned UK-based subsidiaries. However, considering that the dominance effect is also connected to the diffusion of ER innovations among domestic firms, the fact that German subsidiaries are as likely as their UK-owned counterparts to develop HISs within an individualistic ER approach could also be read as the pre-eminence of the dominance effect in shaping ER patterns in a sizeable number of German subsidiaries. Considering that 31 per cent of German subsidiaries have such an approach and 33 per cent a dualistic one, it appears that approximately one half of the subsidiaries that develop comprehensive HISs do so within a collective framework. In the other half, it is done following a unitaristic paradigm that underpins US-style HRM prescriptions. Subsidiary ER of the latter could then indeed indicate dissatisfaction amongst German parent companies with their collective home-country model. In this case, the development of HISs within an individualistic framework may also be seen as a functional equivalent to collective ER that substitutes collective voice with comprehensive direct voice systems.

Alternatively, individualistic high road approaches in German subsidiaries may indicate a country-of-origin effect at a more abstract level. It may reflect situations where parent companies do not perceive a collective approach as providing a useful role model for international operations – even if managers still attribute positive outcomes to a collective approach in their home establishments. In such situations, the generally co-operative and consensual German

management style and ER ethos may translate into direct communication rather than representative channels (Dickmann 2003, Ferner *et al.* 2001). If this is so, HIS could be viewed as a German-flavoured ER style. In other words, individualistic ‘high road’ approaches in German subsidiaries may, in part, reflect the interaction of the dominance effect at the level of the ER approach and a country-of-origin effect at the more intangible level.

It is less likely that German-owned subsidiaries in the UK – compared to indigenous UK firms – will pursue the ‘low road’ ER approach. This relationship is only weakly significant. Despite this, in one quarter of German subsidiaries, employees have no meaningful employee voice mechanisms. This may indicate that the co-operative ER ethos of the German model does not always translate into an Anglo-Saxon context. The non-negligible use of the cost-minimising, labour-flexibility route of the individualistic approach may in part be explained by the types of German parent company that obtain or perceive few benefits from the collective home-country ER template. They may, thus, shed what they perceive to be the constraining elements of their home-country model when operating in a permissive IR host-country context, such as the UK. This may be done with the intention of strategically externalising labour-cost and flexibility requirements.

The findings may also partly reflect an adoption of local practices among a certain subset of German subsidiaries in situations of significant pressures for mimic isomorphism due to *inter alia* local responsiveness and legitimacy reasons. Moreover, regardless of requirements of their wider business and operational environment, the incidence of this ER approach may in part merely reflect an adoption of local practices in cases where parent companies have a non-strategic approach to IR and HRM issues in their international operations and exercise little parental control. However, the analysis has, so far, revealed only the average nationality effect in German subsidiaries and may conceal important variations within the cross-section of German subsidiaries along crucial industry internationalisation dimensions.

5.2 Intra-German analysis: industry characteristics and variations in ER approaches

The findings in Table 2 confirm **H2** and **H3** and therefore provide evidence that the level and type of industry internationalisation have significant effects on ER approaches in German subsidiaries. With regard to **H2**, German MNCs that operate in highly internationalised skills-intensive industries are indeed more likely to draw on elements of both the German and the US model in their UK operations through the use of German-flavoured hybrid ER patterns. Compared to subsidiaries of German MNCs in less internationalised industries they are highly significantly more likely to have a dual ER approach whilst being significantly less likely to pursue traditional collective approaches and ‘low road’ approaches.

Table 2: Industry internationalisation characteristics and employment relations in German subsidiaries

Dependent Variable	Mean			Coefficient (standard error in brackets)		Model χ^2	R ²
	LII	HISII	HILSII	HISII	HILSII		
Trade Union Approach	.18	.06	.13	-.442 (.222)**	-.136 (.352)	66.237	.314
Dual Approach	.22	.56	.10	.834 (.273)***	-.457 (.219)**	81.444	.388
Individualistic 'High Road' Approach	.35	.28	.31	-.274 (.366)	-.389 (.368)	52.676	.212
Individualistic 'Low Road' Approach'	.24	.10	.46	-.586 (.214)**	1.104 (.445)***	37.892	.348

Notes

- (i) LII = less internationalised industry, HISII = highly internationalised skills intensive industry, HILSII = highly internationalised less skills intensive industry
- (ii) see *Notes (i), (iv) and (v)* under Table 1.
- (iii) Number of observations: 219
- (iv) Coefficients are for type of industry. The reference group is less internationalised industries (LII).

A key observation is that the ER outcomes – as the result of the interaction of the four influences in the UK host setting and in this type of industry – are, to a considerable degree, connected with a more pertinent impact of both the country-of-origin and dominance effect. The latter is apparent in a more widespread emphasis on direct employee involvement and in the development of HISs (84 per cent) in relation to the reference group of subsidiaries in less internationalised industries (53 per cent) (see Table 2). The former is evidenced by a stronger preference for collective ER (62 per cent compared to 40 per cent of the reference group). However, the greater propensity to embrace the progressive HIS elements of the US model are not associated with a greater inclination to pursue these within an individualistic ER framework. Moreover, the greater pursuit of collective ER does not entail a stronger preference for the conventional single-pronged German collective approach. In fact, this type of German-owned firm shows the least appetite for the traditional collective approach. A large section of German MNCs competing in highly internationalised skills-intensive industries seem to regard it as beneficial to draw on the collective orientation of the German model when operating in an Anglo-American context whilst incorporating the progressive elements of the individualistic 'high road' approach within a dualistic ER approach.

With the bulk of the large German export industries belonging to this type of industry and with these firms being the main beneficiaries of the particular constellation of the German IR system, German MNCs in highly internationalised skills-intensive industries do indeed have an incentive to achieve greater international integration on the basis of the home-country model and to accommodate competitive pressures to adopt US-style practices within a German specific pathway. The facts that subsidiaries in this type of industry account for over 70 per cent of the incidence of collective ER patterns and for over 80 per cent of the dual approach within the cross-section of German subsidiaries sheds a different light on the findings in the preceding section.

Collective ER and a dualistic ER approach, which reflects the home-country collective orientation of the German model as well as the new German approach to collective ER, are very much features of subsidiaries of German MNCs that compete in highly internationalised skills-intensive industries. They are not general features across all German subsidiaries. This differential industry-specific impact was obscured in the comparative nationality analysis. Indeed, a considerable number of UK subsidiaries of German MNCs that operate in highly internationalised skills-intensive industries seem to be at the forefront in developing German-flavoured hybrid ER patterns and are particularly prominent exemplars of the emerging dual approach in Germany.

As postulated in **H3**, the individualistic ‘low road’ ER approach is a more common feature among subsidiaries of German MNCs that compete in highly internationalised, less skills-intensive industries. Compared to their counterparts in less internationalised industries, they are highly significantly more likely to operate with such an approach. This may reflect the importance of low-cost based international strategies in this type of industry and the associated emphasis on labour-cost minimisation and numerical flexibility. Although, as outlined above, in the majority of cases, the parent-company model can be assumed to be of a collective nature, the incentive structure provided by institutional and regulatory configuration of the German IR framework, though imposing a relatively uniform collective ER template on companies, is more supportive of productivity-orientated skills-based strategies. Given the competitive focus in highly internationalised, less skills-intensive industries, the findings indicate that a considerable number of such German MNCs may associate relatively low net benefits with their home-country approach and may, thus, strategically pursue a labour-flexibility cost-minimising ‘low road’ ER approach in deregulated host-country IR settings. The results indicate that the occurrence of this approach among the cross-section of German subsidiaries is to substantial degree accounted for by subsidiaries in highly internationalised, less skills-intensive industries, thereby confirming the differential impact of industry-specific characteristics on ER patterns.

At the same time, the findings in Table 2 also highlight that this approach – although it is a more common feature among subsidiaries in this type of industry context – is less widespread than might have been expected. Notwithstanding this, subsidiaries with ‘low road’ ER patterns in this type of industry represent only 11 per cent of the total sample of German subsidiaries. Well over half of German subsidiaries in highly internationalised, less skills-intensive industries have either collective or comprehensive direct employee involvement and participation mechanisms in place. Despite the incidence of the ‘low road’ being significantly associated with highly internationalised industries with a relatively low skills intensity, the magnitude of such approach among these subsidiaries seems to confirm the insights of the case evidence mentioned above as to the working of a country-of-origin effect at the more intangible level in the form a transfer of the co-operative management style and ER ethos of the German model. This seems, to a certain extent, to hold irrespective of the pressures of the wider industry environment.

This may also, at least in part, explain why over 30 per cent of these subsidiaries are operating with the individualistic ‘high road’ approach, where HISs, as outlined in the previous section could be viewed as a German-flavoured ER style in terms of a transfer of the co-operative German ER ethos in situations where international integration is not pursued on the basis of the collective home-country model because of managers not associating positive outcomes to the

collective approach at their home-country base and/or not perceiving this approach to be a useful template for international operations. Indeed, Table 2 shows a fairly consistent occurrence of this approach at around the 30-per-cent level across the German subsidiaries with no significant differences according to industry characteristics. This may indeed suggest a wider correspondence with a country-of-origin effect at the more abstract level, regardless of the type and level of industry internationalisation. This might imply that a German imprint in ER patterns is more pervasive than the statistical results in relation to the subsidiary ER approaches suggest.

6. Conclusions

The comparative cross-sectional analysis of German subsidiaries with indigenous UK firms confirmed only partly the expectation of a distinct country-of-origin imprint in terms of the collective orientation of the German model. German subsidiaries are less likely to operate with collective ER patterns that have affinities to the traditional collective ER approach compared to their UK-owned counterparts and are generally as likely to operate with individualistic Anglo-American type ER approaches. However, German subsidiaries are far more likely than indigenous UK firms to have developed dual ER approaches that incorporate the innovative HRM-style innovations of the individualistic ‘high road’ ER approach within collective ER structures.

The interaction between country-of-origin and dominance effects in the UK host-country setting points to a German-specific pathway to assimilate US-style ER innovations as a distinguishing Germanic feature in the comparative nationality of ownership analysis. This entails a nationally distinct hybrid subsidiary ER solution in the form of a selective appropriation of the progressive elements of the Anglo-American approach within a framework that reflects the collective orientation of the German approach. This echoes the increasing interest by German parent companies to incorporate US-style innovations into their collective ER home model, with an emerging dual ER approach already apparent in an embryonic form in their German bases. However, although the dual approach is associated with German ownership, the magnitude of such an approach among the cross-section of German subsidiaries illustrates that this approach is a distinctive, but not necessarily a common, ER feature among German subsidiaries. This highlights the need for a more reflective interpretation of the nationality differences.

The intra-German analysis of ER approaches revealed significant variations according to important industry characteristics, which were masked in the comparative nationality analysis because this depicted only the average German nationality effect. The intra-German analysis highlighted the mediating as well as the differential influence of the level and type of industry internationalisation in shaping the relative strength and nature of the country-of-origin effect. Compared to subsidiaries of German MNCs in less internationalised and more multidomestic industries, those operating in highly internationalised industries and that face competitive pressures for internationally integrated approaches exhibit pronounced differences in the deployment of ER approaches, which are further accentuated by the skills intensity of the industries concerned. The dual ER approach is far more pronounced in UK subsidiaries of German MNCs that compete in highly internationalised skills-intensive industries, highlighting the stronger impact of both the country-of-origin effect and the dominance effect.

With German MNCs in skills-intensive industries benefiting in particular from the specific institutional and regulatory configuration of the German IR system, and with this system having delivered competitive advantages to German firms in these industries that helped them to succeed internationally, such MNCs have an incentive to achieve greater integration of their international operations on the basis of their home-country model whilst accommodating pressures arising from dominance effects within a dualistic approach, rather than on the basis of an individualistic 'high road' approach akin to those in leading US MNCs in these industries. Indeed, with such German subsidiaries accounting for the overwhelming majority of subsidiaries with a dual approach in the total sample, a German-specific pathway to incorporate US-style ER innovations is very much a defining feature of German subsidiaries in highly internationalised, skills-intensive industries. It is not a general feature among German subsidiaries. Subsidiaries in this type of industries seem to be particularly prominent exemplars of the new German approach to ER.

In contrast, the individualistic 'low road' ER variant of the Anglo-American model is associated with subsidiaries of German MNCs operating in the low skills-intensive highly internationalised industries. Although the German IR system has generally led to a collective ER model in the parent-company home bases, the German system is less supportive of competitive advantages in these more labour-intensive industries. The considerable number of German subsidiaries that operate with a 'low road' ER approach seems to reflect the importance of low cost-based international strategies in this type of industry and the associated emphasis on labour cost minimization and numerical flexibility. These MNCs may strategically use their subsidiaries that are based in Anglo-American host-country contexts to externalise labour cost and flexibility pressures. Despite this, such an approach is a more common feature among subsidiaries of German MNCs in highly internationalised, less skills-intensive industries. It is not, however, a universal feature. This supports with recent findings (Ferner *et al.* 2001, Dickmann 2003) that suggest that German subsidiaries have a country-of-origin imprint at a more intangible level; that is, in the transfer of the generally co-operative German management style and ER ethos. This seems to occur irrespective of the pressures of the wider industry environment.

The findings of this study serve as a useful reminder to caution against the preoccupation with current 'global best practice' prescriptions and that any search for 'best practice' has, at least, to acknowledge that it is more appropriate to speak of 'industry best practice'. Even this needs to be understood in terms of functional equivalents allowing for 'nationally distinct pathways of industry best practice'. The findings of this study also highlight that industry pressures in the interplay between home-country, host-country and dominance effects have a significant, but not a universal, effect. This underscores a contention of the four forces model that none of these influences is deterministic, but that their impact in shaping ER outcomes in MNCs' overseas subsidiaries operations is a matter of degree. This militates against clear-cut categorical conclusions. Furthermore, the findings also underline the importance of incorporating BS dynamics and the subsequent evolving nature of the country-of-origin effect into the analytical framework. Country-of-origin effects at a more intangible level that reflects nationally embedded cultures on terms of ER style and ethos should also be taken into consideration.

Having established rather different ER approaches for different sets of companies, it might be suggestive to argue in favour of a permissive legal environment in which the companies – their management and, as the case may be, their employees – can choose their best fit. However, this

may be a precipitant conclusion. Of course, we have not yet said anything about the superiority of any particular ER approach with respect to company performance. Taking the usual contention for granted that the market – or, rather, the markets – will prove capable of forcing every company in line with the respective best practice (Hayek’s idea of the market as best provider and disseminator of information and knowledge), one would expect a close relation between superior performance and ‘industry best practise’ without any need for regulatory intervention. However, our own research (Tüselmann *et al* 2008) has proven this assumption clearly wrong. All too often, information deficiencies or downright cultural or ideological constraints do not yield the use of the most appropriate employee relations to be chosen deliberately. Therefore, policy recommendations drawn from this work will have to carefully balance the need for industry-specificity on the one hand and for a general scheme of employee participation beyond pure management prerogatives on the other hand.

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