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Labor-Management Relations and Varieties of Capitalism

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Socioeconomics of personnel = personnel economics + social norms + societal concerns

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Labor-Management Relations and Varieties of Capitalism

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Abstract

The varieties-of-capitalism (VoC) approach distinguishes liberal market economies (LMEs) such as the USA and coordinated market economies (CMEs) such as Germany based on institutional differences in terms of corporate governance, industrial relations, company relations as well as education and training. According to the VoC approach, firms differ in the ways in which they combine market and non-market mechanisms to coordinate their activities. Firms in LMEs are considered to rely more on market or exit mechanisms than firms in CMEs, which more often complement market with non-market or voice mechanisms. This chapter summarizes what has been learned from the VoC approach on the linkages between the institutional environment and labor-management relations. Various important lessons can be drawn. Employment protection legislation is a productive element within the institutional setup of CMEs. LMEs tend to induce strong overall wage dispersion, whereas in some CMEs such as Germany the labor market performance varies markedly by skill type and gender. The recent literature also indicates that the institutional setup is more complex than the VoC approach suggests, calling for revisions to the approach. In particular, some countries are hybrid economies that combine elements of both types of capitalism. The CME-LME dichotomy does not appreciate the true variety of country-specific skill systems. Finally, multinational enterprises overcome institutional boundaries of different types of capitalism in ways that were not included in the original VoC approach.

Keywords: varieties of capitalism; employment relationship; skill systems; employment protection

JEL codes: J50, M12, P17

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1 Introduction

In the varieties-of-capitalism (VoC) approach, Hall and Soskice (2001) distinguished liberal market economies (LMEs) such as the USA and coordinated market economies (CMEs) such as Germany. Because each type of capitalism exposes firms and employees to a systematically different macro-institutional environment, there are clear cross-country differences in terms of labor market patterns. For example, long-term employment, in-company training, trade union bargaining and internal labor market should be more common in CMEs than in LMEs. Though Hall and Soskice mention that other types of capitalism exist, they posit that LMEs and CMEs are each distinctive of a coherent arrangement of institutions that support certain innovation activities. In other words, the two varieties of capitalism allow companies to attain specific *institutional comparative advantages*, and these will ultimately generate strong labor market performance and high economic growth.

As a typology of market economies, the VoC approach has offered important insights and has suggested various research opportunities in the field of employment relations.

First, labor-management relations are governed by various institutions, not only those that govern the labor market directly. For example, skill acquisition and long-term employment are influenced by the corporate governance system and company financing (Black et al. 2007). The VoC approach systematizes such cross-institutional linkages. It portrays the institutional setup of countries in four spheres, namely corporate governance, industrial relations, company relations as well as education and training. At the same time, the approach is firm-centered (Amable 2003: 81), organized around the many contractual obligations of the company. It therefore best illustrates how labor-management relations are influenced by other relations such as between shareholders and managers.

Second, despite the range of institutions covered, the world of capitalism is suggested to be divided into few real types. Such a typology neither assumes that all market economies have the same institutions nor that each is unique, thus permitting parsimonious analyses on how institutions matter in labor-management relations.

Third, thanks to the VoC approach, institutional economics has become the focal point of a broad, multidisciplinary research stream to understand the institutional sources of the wealth of nations. During the past two decades, the VoC approach has been discussed more intensively than a number of important alternative typologies, in particular types of “welfare capitalism”

(Esping-Anderson 1990) and of "business systems" (Whitley 1999), and this discussion has involved contributions from labor economics, international economics, sociology, international business and political science.

This chapter will describe the linkages between type of capitalism and labor-management relations, with the latter defined as comprising human resource management (HRM) practices, industrial relations practices and the nature of employment relations more generally at the firm or higher level. Focusing on these linkages is also important for the future development of the VoC approach. Institutions that characterize an economy's labor-management relations are defining elements of any form of capitalism – but they are also the most difficult to summarize. The labor market has been described as "potentially the most idiosyncratic market in advanced capitalism" (Freeman 2001: 139).

The next section will analyze how labor-management relations matter in the VoC approach. Then the main findings from empirical work that groups countries into different types of capitalism will be summarized. Subsequent sections will discuss the linkages along four themes, namely training and employment security; HRM practices and job quality; labor market inequality; and globalization and international issues. Each of these sections will clarify key propositions and implications of the VoC approach and then selectively review the most important work that used the VoC approach as frame of reference to examine labor-management relations. The guiding questions are: What can be learned from the VoC approach? And where does the original VoC approach need to be adapted in light of recent work?

Given the strengths and weakness of the VoC approach (Hancké et al. 2007: 7f.), the scope of this review is restricted in a number of ways. Hall and Soskice (2001) focused on more affluent economies, basically the OECD countries. Recent work attempts to map other parts of the world in terms of the institutions of capitalism (for summaries, see Witt 2021; Feldmann 2019). But the various typologies are difficult to reconcile, so this chapter will focus on OECD countries and the differences between LMEs and CMEs more particularly. The VoC approach has also been criticized for neglecting the role of the state and of conflict. As a result, important aspects of labor-management relations such as industrial disputes and the role of the state within collective bargaining have not been investigated from a VoC perspective and will largely be ignored in this chapter. Finally, the VoC approach is instructive in contrasting the typical firm as it is embedded in different institutional environments but glosses over differences between sectors and firm strategies. Hence, this chapter will largely ignore findings that are specific to particular industries.

2 The importance of labor-management relations within the VoC approach

As Hall and Soskice (2001) observe, companies in the USA (an LME) and in Germany (a CME) manage their relations to employees, shareholder and creditors, customers, suppliers and competitors in systematically different ways. They posit that firms in LMEs rely more heavily on *market* relations to resolve coordination problems whereas firms in CMEs address these problems more often via forms of *non-market* coordination including "collaboration and strategic interaction" (Hall and Soskice 2001: 27). The differences in firm strategy are considered to be the product of the constraints imposed and the incentives offered by the respective macro-level institutional environment. According to the VoC approach, laws, regulations and custom encourage more short-term market-based exchanges in LMEs; in CMEs, they encourage more relational exchanges mediated by actors such as trade unions and works councils. Thus, the VoC approach suggests strong *institutional coherence*, defined as the fact that various institutions follow "common or identical principles", in this case market/exit versus non-market/voice (Deeg 2007: 613). Coherence extends to the four institutional spheres or systems mentioned already.

Though LMEs and CMEs mark opposing ends of a spectrum, they both tend to produce favorable outcomes in terms of company competitiveness and labor market performance. This is because in each variety of capitalism, strong *institutional complementarities* are at work. Two or more institutions are complementary when their co-existence or conjunction enhances the performance of an actor, an industry or the entire economy (Deeg 2007). In the USA, for example, strong venture capitalism and a skill system generating a supply of highly skilled academics jointly support firms in radical, science-based innovation. In Germany, conversely, patient capital and a skill system encouraging vocational in-company training support firms in incremental types of innovation. The VoC argues that such complementarities exist between various institutions, and some of them will be discussed in the sections below.

Since the institutional setup of both LMEs and CMEs offer an institutional infrastructure in which companies are able to succeed, the VoC approach implies that we should observe considerable *institutional clustering* (Deeg 2007; Boyer 2006). Countries should tend to gravitate towards either model, resulting in two groups of economies each with similar institutions. There are additional types of capitalism such as a number of southern European ("Mediterranean") economies or transition economies which do not conform to either the LME or the CME variety but according to the VoC approach these types tend to be less successful.

Differences in labor-management relations are at the core of the VoC argument. The type of skills employees hold – general or firm-specific – is a crucial outcome of the institutional configuration and in turn influences the specialization pattern – incremental versus radical innovation – of important parts of the economy, in particular the manufacturing sector and more sophisticated services such as research and development. The differences between LMEs and CMEs are most pronounced between the USA and Germany, the countries which Hall and Soskice (2001) discuss as the prime cases for each type of capitalism (Table 1).

Table 1. Institutional differences between the USA and Germany and resulting practices and outcomes

Macro-institutional sphere	Typical practices and outcomes	
	USA (LME)	Germany (CME)
Corporate governance	Financing through stock market Shareholders represented on boards Venture capital provided	Financing through long-term bank financing Workers represented on advisory boards (co-determination) Patient capital provided
Industrial relations	Weak employment security/short employee tenure Individual negotiations between employer and worker Wages determined by labor market	Strong employment security/long employee tenure Works council bargaining in the firm Wages determined through collective bargaining
Company relations	Competition	Collaboration, e.g. in training
Education and training	Skill acquisition through hiring and informal learning on-the-job	Skill acquisition through in-company (vocational) training
Type of skill produced	General, academic	Firm-specific, non-academic/intermediate
Competitive advantage supported	In rapidly changing markets with radical innovation (high tech)	In niche markets with incremental innovation (medium high tech)

Source: Own compilation based on Hall and Soskice (2001), Schneider and Paunescu (2012).

The analysis implies that labor-management relations are generally based on voice and communitarian principles in Germany and other CMEs, and on exit and individualistic principles in LMEs (Unger 2000; Haake 2002). The differences manifest themselves in various empirical differences in the area of labor-management relations (Hamann and Kelly 2008). In CMEs, co-determination institutions such as the German works councils and board representation are more widespread, wage determination via collective bargaining more common, and wage bargaining will be conducted more often at industry or national level, or will be more strongly coordinated across firms and industries. But trade union membership, contrary to the main VoC argument, is not always higher in CMEs though it should be theoretically. In CMEs, employment tends to be more secure for worker as measured by the average employee tenure in years. Industrial disputes tend to be less frequent.

By emphasizing institutional complementarities, the VoC approach informs cross-country comparisons of labor-management relations including the formulation of policy conclusions (Höpner 2005). In particular, the way in which firms are financed will influence employers' willingness to invest in training and in long-term employment. Employers in Germany, for example, are said to be able to invest more in in-company training and will commit themselves to employing workers on a long-term basis because finance capital is more "patient", resulting from worker representation on company advisory boards and in many cases relational contracts with banks. Such linkages across institutional spheres should be taken into consideration when the transfer of training practices or voice institutions across borders are discussed.

3 Empirical types of capitalism

Within the VoC literature, some work examined empirically how countries fall into different varieties of capitalism. The original groupings of countries were not systematic and the data presented by Hall and Soskice (2001) referred mainly to the USA and Germany during the 1990s. Some authors collected a range of institutional measures – for more countries and often with more recent data – and clustered countries in these multiple dimensions. In this way, the authors tested the existence of two or more types of capitalism and the country composition of each type. Though the findings are sensitive to country sample, time period, institutional measures and analytic method, three important lessons emerge from this work.

First, the CME-LME dichotomy has some descriptive power. An important group of economies fall into either LME or CME, as expected, and the dichotomy even crops up in an analysis including many more countries than the original contribution (Witt and Jackson 2016). The USA, the UK, and Canada form the LME core while Austria, Belgium, France, and Germany form the CME core (Schröder 2013; Schneider and Paunescu 2012). Compared to other countries such as the southern European economies, both CMEs and LMEs also appear to perform relatively well in terms of industrial competitiveness, with specialization into either incremental or radical innovation as predicted by the VoC approach (Schneider and Paunescu 2012).

Second, there are more than the three types of capitalism mentioned in the original contribution (LMEs, CMEs, and southern European economies), even among the comparatively homogeneous group of OECD countries (Schröder 2013; Schneider and Paunescu 2012; Amable 2003). Japan does not fit either type of capitalism though it has been discussed as a CME. The group of CMEs is much smaller than originally assumed because the Scandinavian economies are much less CME-like than expected (Schneider and Paunescu 2012) and emerge in separate clusters (Amable 2003; Schröder 2013).

Third, some successful economies do not conform to the polar cases, the LME nor the CME model, but instead are "hybrid" economies in terms of their institutional arrangements (Amable 2003; Schneider and Paunescu 2012; Schneider et al. 2010; Witt and Jackson 2016). One well-examined example is Denmark's flexicurity model, which combines weak employment protection – a feature typical for LMEs – with a number of CME institutional characteristics (Campbell and Pedersen 2007). Other examples for hybrid economies are Switzerland and Japan (Schneider and Paunescu 2012; Schneider et al. 2010). Apparently, such "hybrid" institutional setups unfold their own institutional complementarities. One example is the idea that CME-like voice features impose a "beneficial constraint" on an otherwise LME-like institutional arrangement based on exit (Witt and Jackson 2016). In Denmark, for example, unemployment insurance and large investments in retraining limit the possible harmful effects of weak employment protection. Hence, some economies benefit from institutional complementarities through institutional *in*coherence as they do not follow either the exit or the voice logic consistently across all spheres – or even within the industrial relations or the education and training sphere.

Fourth, there has been a substantial change in institutions including labor-management relations. Tracking the 1990 to 2005 period, Schneider and Paunescu (2012) find the strongest change (as measured in quantitative indicators) in Denmark, Finland, the Netherlands, Sweden and Spain. In these countries, university training (as opposed to firm-centered vocational training) became more important, and the strictness of employment protection was reduced. Such changes moved these and other countries closer to the LME pole, a process discussed as "liberalization", which has also affected the paradigmatic CME Germany (e.g. Hassel 2014). The process has important implications for labor-management relations. It has caused a lot more variety on labor markets as well as a "dualization" – in Germany (and to a lesser extent other countries) wages and employment security drifted more strongly apart between different groups of employees (Thelen 2014).

4 Training and employment security

Training and employment security are at the heart of the VoC approach. In CMEs, comparative institutional advantages in incremental innovation are rooted in firm-specific skills acquired through vocational training and in more long-term employment relationships. Though comparative advantage in LMEs rests less on specific skills, the problem of long-term relationships and training is important for any firm, and training and employment security are a crucial aspect of labor-management relations. It is not surprising, therefore, that these topics have attracted the most attention in the literature that built on the VoC approach. Within that work, a number of contributions illustrate how the approach can be used instructively to frame and guide cross-country comparisons in labor-management relations.

The VoC approach was used as frame of reference in some comparisons of national skill systems. Bosch and Charest (2008) compare changes in a number of education and training systems. Their choice of countries – Canada, Denmark, Germany, South Korea and the United States – is informed by the CME-LME distinction, and they argue that vocational education and training systems are "deeply embedded in the different national production, labour market, industrial relations and status systems" (Bosch and Charest 2008: 429). By the mid-2000s, dual training schemes combining the school and the workplace as locations of learning remained important in Denmark, Germany and South Korea whereas apprenticeship training in Canada and the USA were still less important and less prestigious forms of skill acquisition. Today, actors in each country seek to "bridge" vocational and academic forms of training but the ways in which they do so is dependent on the system's history.

The idea of path dependency of training systems is also visible in the work by Stroud et al. (2014). They study the Appalachians (USA), the Ruhr (Germany) and the Valleys (Wales), three regions that similarly need to master a transition from a coal to a green economy but are located in countries with divergent types of capitalism. The authors argue that the changes in skill formation and in labor market structures are likely to produce more favorable results for workers, in terms of new jobs, in the Ruhr region, which is located in a CME institutional environment. This is because job creation in the transition strongly depends on "collaboration between a range of relevant stakeholders, including representatives of employers, trade unions, community groups, different levels of government (namely regional and local) and educational institutions", and this type of collaboration is more strongly "institutionalized" in CMEs than in LMEs (Stroud et al. 2014: 21). Even single country studies can benefit from the VoC approach by offering opportunities for implicit comparison. Wheelahan (2015) derives a skeptical evaluation of changes in the Australian training system by drawing on similar experience in other LMEs.

The VoC approach has also led to a reassessment of employment protection legislation. Harcourt and Wood (2007) and Harcourt et al. (2007) adopt the idea that strict employment protection is strongly complementary to a skill system based on vocational, mostly non-academic training. Such a skill system can be found in some CMEs, which appear to acquire competitive advantages in industries characterized by incremental innovation. Employment protection in this view supports sophisticated production based on vocational skills by raising incentives for long-term employment, thus solving commitment problems on the part of both worker and employer. This is because vocational training impart a mixture of firm-specific and general skills. But workers will underinvest in firm-specific skills unless they are guaranteed some employment security, and employers will underinvest in more general worker training unless they expect workers to stay. Some legal employment protection will induce workers to invest in specific skills, committing them to the present employer, which in turn allows employers to invest in the general part of the training. Though the authors admit that a "lethargy effect" of employment protection can reduce worker motivation, this problem is considered less pronounced in CMEs than it would be in LMEs (Wood et al. 2007). Hence, an institution that has often been considered an obstacle to a flexible labor market turns out to be a beneficial constraint in a particular variety of capitalism. Here the systemic nature of any type of capitalism also issues an important warning not to draw seemingly straightforward "lessons from America" (Bierhanzl 2005) in a CME context.

While that stream of work to some extent mirrors and confirms findings of the VoC approach, a number of other contributions are more critical and cast doubt on main elements of the approach. Three related and important lessons follow from this work.

Key arguments in the VoC approach hinge on an analysis of the skill system in Germany (Culpepper 2007). Important recent work uncovers more heterogeneity among CME skill systems than implied by the VoC argument. In particular, the idea that CMEs generate skills that are more specific than in LMEs needs some qualification. Culpepper (2007) finds Switzerland to produce more general skills than Austria, which is more similar to Germany in that respect. Busemeyer (2009) shows that in Japan young people receive skills with rather general content even though firms are strongly involved in training; and that Sweden, though conveying specific skills to young people, still retains a fairly high mobility among workers thanks to active labor market policies. This contribution and other work indicate that the notion of a coherent combination in CMEs of specific skills, strong employment protection and high worker tenure is not supported by the facts – in particular, the Scandinavian economies do not fit that pattern. In an analysis covering 21 economies (but not Japan), Edlund and Grönlund (2008) distinguish Nordic and continental European countries. Only in continental European economies do they find a combination of long tenure based on strong employment protection as well as highly specific skills; the Nordic countries they find to be "similar in many respects to LMEs" (Edlund and Grönlund 2008: 259). Goergen et al. (2012) present findings with firm data from four waves of the Cranfield Network on International HRM (Cranet) survey covering western European countries. Sweden and Finland do not operate a strong company-based training system, and here firms behave much like firms from LMEs in terms of low investment in training and high staff turnover rates. In Denmark and Norway, where the state is directly involved in training activities, both training investments and staff turnover are higher than in core-CMEs such as Germany. Overall, this work echoes the empirical findings on more variety among CMEs.

A second, closely related lesson is the need to reconsider and diversify the measures used for portraying national skill systems. The institutions in CMEs are said to generate specific, partly tacit skills gained through learning by doing in a single company or industry, skills that allegedly enable firms in CMEs to excel in niche markets and markets with diversified quality production. A number of indicators have been used to measure skill specificity at country level including the size of specialized occupational groups; employer-worker dependency; average worker tenure; the share of young workers with different kind of degrees (either vocational or academic; from secondary or from tertiary education); and the extent of on-the-job training (Edlund and Grönlund 2008; Schneider and Paunescu 2012; Culpepper 2007). The measures capture in differing degrees the multiple possible meanings of "skill specificity": skills that are not portable across firms, occupations, or industries; that are attainable only by working with a certain technology; accumulated over time in one firm; or resulting in a mutual long-term commitment between employer and employee.

As a third lesson, some work casts doubt on the way in which the VoC approach portrays the innovation process, in particular the way in which firms in LMEs are conceived to organize radical change. "The idea that powerful senior management in radically innovative firms regularly imposes massive layoffs of personnel with general-purpose skills in order to develop new products or technologies is a notion that finds little support in the innovation management literature." (Lorenz 2012: 87) Instead, Lorenz (2012) argues that both radical and incremental innovation rely on a learning process within teams and enterprises that is difficult to replicate by other firms. Industries with particularly innovative firms are often located in regional clusters, securing a pool of employees with technology-specific expertise while retaining worker mobility between firms. With data for 27 EU member states, he shows that an economy is the more innovative, the more their companies practice "creativity at work". The composite measure the author develops for the concept includes information taken from the EU Working Conditions Survey referring to work autonomy, the use of ideas, the breadth and complexity of tasks and the importance of problem solving in the job. Lorenz (2012) argues that the "relational requirements" for radical innovation involve more long-term commitment between employers and employees than the VoC approach suggests. Backes-Gellner et al. (2016) provide supportive firm-level evidence. They find that US subsidiaries in Europe rely much less on hiring and firing than on functional flexibility, which is similarly defined as creativity at work, in order to achieve radical innovation. This result holds across country contexts spanning different types of capitalism (Germany, Switzerland and the UK).

Overall, the ideas of institutional complementarity and path dependence inherent in the VoC argument have been important in reassessing employment protection legislating and in carving out links to an economy's skill system. Though a fruitful starting point in many studies, the VoC approach has been considered hardly sufficient for describing the institutional differences between skill systems with its highly complex blend of education and training in different places and with differing contents. The heterogeneity in training and employment protection among the alleged CMEs is larger than expected, and the labor-management relations conditions for strong innovation differ much less between radical and incremental innovation than the theory suggests.

5 HRM practices and job quality

A key proposition of the VoC approach is the idea that firms' HRM practices and the jobs they design largely reflect the respective institutional environment; the approach characterizes firms as "institution takers" (Hancké et al. 2007:7). Compared to CMEs, firms in LMEs should apply HRM and industrial relations practices that more closely reflect an arms-length approach to employment relations. They should engage less in training, and more in pay and recruitment practices that closely react to labor market forces. For the majority of workers, they should design jobs with less autonomy and scope of tasks, which implies a lower quality of jobs.

Some studies used data from the Cranet Survey to compare HRM practices across different types of capitalism. Consistent with the VoC approach, firms from LMEs tend to apply more performance-centered HRM practices such as incentive pay and formal appraisals than firms from CMEs (Cristiani and Peiró 2018). However, firms from the Netherlands and Switzerland – alleged CMEs – were found to be more similar to firms in LMEs in these and other areas of HRM (Krebs et al. 2021). And the pattern of HRM practices which firms in Scandinavia usually apply set them apart from continental European economies and the UK (Pedrini 2016). Overall, the VoC approach helps to understand firm-level differences in a range of HRM practices. Some seemingly atypical findings closely match the literature, cited above, that uncovers more heterogeneity and change in country models.

The alleged focus on diversified quality production in CMEs implies that in these countries, workers should hold jobs with broader content and higher task discretion. Some work therefore analyzed differences in job design and quality along the LME-CME dichotomy. The results are contradictory. Frege and Godard (2014) find that that the average job is better in Germany than in the USA, and that some US employers compensate for the national institutional environment which is less conducive to job quality. Also consistent with the VoC approach, a study on call center work in 17 countries found more work discretion in CMEs (Holman et al. 2009). However, Gallie (2007) did not discover differences along the CME-LME split, and in the study by Esser and Olsen (2012) the Scandinavian economies perform much better than other CMEs. This is in line with the findings by Lorenz (2012), cited above, who showed that jobs in Scandinavian economies tend to score high on creativity.

An interesting other application of the VoC approach is firms' Corporate Social Responsibility (CSR) policies (Favotto et al. 2016). A study comparing firms in CMEs and in LMEs do not yield clear-cut findings. CSR reporting seems more common in firms located in LMEs but firms in the three CMEs Netherlands, Germany, and Switzerland include less on environmental issues but more on labor issues in their CSR reports when compared to US firms.

6 Labor market inequality

Though mainly geared towards explaining industrial competitiveness, the VoC approach has important implications for various inequality issues, which have been explored from the beginning of the debate (Estevez-Abe et al. 2001). Each of the two successful types of capitalism should generate its own inequality pattern. In LMEs, more fluent labor markets, less downward restrictions on wages and the range of skills from unskilled to academic credentials are likely to produce higher income inequality than in CMEs. In the latter group of countries, however, a stronger segmentation between different groups of workers is the likely result of strict employment protection, strongly institutionalized vocational training, and the focus on specific skills acquired in long-term employment relationships. There is some evidence for these different types of inequality.

Different measures of wage dispersion such as the GINI coefficient or the earnings share of the top 1 % earners are higher for typical LMEs such as the USA and Britain than for typical CMEs such as Germany and Austria (Le et al. 2021). In addition, Roberts and Kwon (2017) demonstrate how financialization, defined as the growth of the financial sector in terms of turnover and jobs, has exerted effects that are contingent on the type of capitalism. Based on data for 1980 to 2007, they show that in response to financialization, wage dispersion increased more strongly in LMEs than in CMEs. In line with this finding, Le et al. (2021), who study the period up to 2015, demonstrate that the post-2007 global financial crises increased wage inequality more strongly in LMEs than other countries.

Other evidence uncovers group-specific disadvantages in CMEs. Estevez-Abe (2005) argue that women still interrupt their work life more often than men. It is therefore disadvantageous for them when there is a need to remain with one employer as is the case in internal labor markets with their job ladders and internal careers. Due to the strong emphasis on firm-specific skills and internal labor markets, the institutional setup of CMEs is more gender biased – women in CMEs end up working less often than men, and if so more often in occupations dominated by women and less often in top managerial jobs (Estevez-Abe 2005); they also receive less further training (Wozny and Schneider 2014). Scandinavia – again – differs from other CMEs. Internal labor markets are less pronounced, and governments "solve" the gender problem by creating service jobs in the public, often educational sector, in which women tend to concentrate (Estevez-Abe 2005).

A similarly persistent segmentation occurs in some CMEs based on skill groups. In Germany and a number of other countries, occupational training systems provide an institutionalized entry into the labor market for young workers. The downside is a strong disadvantage for people who drop out of training schemes; workers without suitable credentials are left in relatively low-paying jobs that do not grant access to regular job ladders. As a result of this insider-outsider pattern in internal labor markets, long-term unemployment rates are higher for continental European CMEs – but not Scandinavian economies – than for LMEs (Chilosi 2014). Institutional change such as financialization and deregulation since the 1980s has also affected inequality among the employed. In Germany, institutional change has led to a dualization: a strong segmentation between workers with high skills and wages as well as long-term employment on one hand, and low-skilled, low-wage workers in precarious contracts on the other (Hassel 2014). A similar development has been prevented in Scandinavia by social and active labor market policies (Thelen 2012), an institutional area which the VoC does not as systematically introduce into theory-building. Apparently, the VoC framework is not able to fully describe the peculiarities of Scandinavian labor markets and to explain their success because it does not take into account the role of the state as employer and supplier of social policies (e.g. Hancké et al. 2007: 7-8).

The VoC literature mainly examined segmentation based on gender and skill groups. An interesting extension are questions of intersectionality, for example, how labor market outcomes differ between types of capitalism when class and gender differences are considered simultaneously. Mandel and Shalev (2009) argue that CMEs provide some institutional support for women at the lower end of the wage and social hierarchy whereas LMEs are more favorable for women at the upper echelons of firms and societies.

7 Globalization and international issues

A key impetus of the VoC approach was the question how globalization will affect national institutions. By suggesting strong institutional complementarities and differing institutional comparative advantages of CMEs and LMEs, the VoC approach predicts that labor-management relations will not converge to the same extent as globalization analysts have argued (Hall and Soskice 2001). This is because each institutional environment renders particular strategies more profitable and, as a result, employers, employees and their organizations in both types of capitalism embark on different routes. When they invest in assets and competencies, they will commit themselves to or might even be locked into their home institutional environment. Because of the lock-in effect, institutional setups are turned into relatively stable equilibria; the actors and the system will react to new challenges in path-dependent ways. This has been argued for example with reference to the differing reactions to the financial crisis in 2007/8 (Heyes et al. 2012; Lallement 2011).

This idea has important implications for the behavior of key actors of globalization – multinational enterprises. Since they engage in several institutional environments, multinational enterprises constantly need to decide whether to adopt local practices or transfer practices from the home to the host country. The VoC approach refocuses this strongly researched issue because it suggests particular differences between LMEs and CMEs in terms of common HRM practices and industrial relations practices, their variability and the firms' interest in transferring them.

Farndale et al. (2008) compare a broad range of HRM and industrial relations practices in three CMEs (Germany, the Netherlands, and Sweden) and one LME (the UK) based on data of the Cranet survey. The authors test whether applied practices will be more similar across firms within the three CMEs because here coordination and regulation are stronger than in the UK. There is supportive evidence for seven out of the eight practices the authors studied, in particular pay bargaining level, financial participation, staff briefing, strategy statements, non-permanent contracts, number of training days and trade union membership. A second prediction concerns differences between purely domestic firms, subsidiaries of foreign multinational enterprises and firms that are part of a home-based multinational enterprise. The authors expect that the differences between these types will be larger in the UK than in the three CMEs because the LME framework gives firms more leeway in crafting their practices – including multinational enterprises who are free to transfer practices to the UK. But there is no clear empirical evidence for this expectation.

As the latter finding suggests, LMEs are not generally more receptive to the transfer of practices. In line with this, Iseke and Schneider (2012) argue that a transfer of practices within multinational enterprises is even stronger from LMEs to CMEs. The main reason is a dominance effect. Since US multinational enterprises were so numerous and US-style HR practices were often considered superior in the 1990s, the practices of US firms were often adopted in other countries including CMEs. The authors support this argument by revisiting empirical studies on the transfer of practices published since 1994. At the same time, their study includes a finding that supports another implication of the VoC approach, namely that non-market coordination in the industrial relations system of CMEs acts as a brake to practice transfer. Firms from LMEs are found to transfer their HRM practices more often than their industrial relations practices to their subsidiaries in CMEs; they often comply – or need to comply – with local industrial relations practices such as collective bargaining coverage or the existence of workplace-level representations (works councils).

Another interesting question is how multinational enterprises with headquarters in LMEs and CMEs compare in terms of how they operate in countries with a completely different and less formally regulated institutional setup. Amaeshi and Amao (2009) compare subsidiaries of large enterprises in Nigeria in terms of their CSR policies. They find that these multinational enterprises adapt less to the local environment than multinational enterprises from other countries (who are neither LME nor CME) and that multinational enterprises from CMEs more often involve employment issues in their policies such as broader stakeholder groups, emphasis on labor conditions and human rights, compared to enterprises from LMEs. Hence, the stronger emphasis on regulation of employment relations in CMEs carries over to policies elsewhere.

The VoC approach also speaks to the question of international location. Multinational enterprises might engage in "institutional arbitrage" by placing each of their activities in a country that offers the most conducive institutional environment for that particular activity (Hall and Soskice 2001). Hence, they may locate processes that need radical, science-based innovation to LMEs, and those that need incremental, experience-based innovation to CMEs. In addition, multinational enterprises from LMEs usually acquire knowledge through external rather than internal growth and are therefore more likely than firms from CMEs to offshore activities. Lauder et al. (2008) shed light on these implications based on numerous interviews in 20 multinational enterprises in three sectors. They find no systematic differences which could be accounted for by type of capitalism; all multinational enterprises use offshoring activities. Moreover, they detect a process of "skill capture". Multinational enterprises emulate the expertise based in one country in other locations, which in turn allows them to implement international project teams who work together, often in a 24-hour research and development mode. This suggests that the advantage which certain institutions grant in skill production may successfully be transferred within multinational enterprises, thus eroding the location-specific institutional advantage. This is an important finding because it suggests that multinational enterprises are able to benefit from differing institutional environments in more ways than the original idea of institutional arbitrage implies.

The idea of institutional equilibria and path-dependent reactions might affect not only firms but also other actors. Some studies examined how the type of capitalism shapes how trade unions and employer organizations pursue differing policies towards international employment issues. Menz (2010) compare international migration policies and speculates that employer associations will call for immigration of highly skilled workers in CMEs but for all types of workers including those with low skills in LMEs. He finds some consistent evidence when comparing Germany and the UK. Johansson (2012) argues that migration policies consistent with an LME framework will call for employer-led decisions in attracting foreign workers. Conversely, a policy consistent with a CME framework will involve unions or other intermediaries and pursue a selective approach to migration. Focusing on one country, Johansson (2012) finds Swedish trade unions to be in favor of the CME approach but Swedish employers in favor of the LME approach. Bair and Palpacuer (2012) compared anti-sweatshop campaigns across different countries and find differences in terms of the actor involved. In the USA, trade unions are the most active groups working against poor working conditions in low-wage countries; in Europe and Canada is civil society groups who are the more active campaigners. Overall, the LME-CME dichotomy has also been visible in differing organizational policies.

8 Summary

This chapter has analyzed linkages between labor-management relations and the institutional environment as conceived in the VoC approach. The VoC approach proves to be an instructive frame of reference for comparative work on worker-management relations. In particular, the institutional complementarities between the skills of employees with employment protection legislation implies that the latter can be a productive element within the institutional setup of CMEs. The LME-CME dichotomy explains important cross-country differences in the HRM and industrial relations practices, most importantly in terms of CSR policies and performance-related HR practices. Each type of capitalism also seems to generate distinct varieties of inequality. LMEs tend to induce strong overall wage dispersion, whereas the labor market performance in some CMEs such as Germany differs markedly between skill types and gender. In light of the reviewed labor-management relations literature, some revisions to the VoC approach are called for. Some economies such as Denmark are successful hybrids combining exit and voice mechanisms. The proposition that CMEs produce firm-specific skills whereas LMEs produce general skills is too narrow, and the requirements in terms of labor-management relations for successful innovation are very similar in firms across all types of capitalism. In a number of areas, the Scandinavian economies diverge from the CME model, contradicting the original VoC proposition. Furthermore, multinational enterprises from LMEs and CMEs are more similar than the VoC approach implies. By emulating different skill systems within their own boundaries, they are able to transfer the specific institutional advantages of the CME and the LME models.

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