

Where your FDI comes from matters: comparing the firm-level labour training characteristics of firms from 15 emerging economies according to their economic relations with the US and Germany

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I. Introduction

Social policies of traditional welfare states have long been unable to protect vulnerable groups from risks. These risks have been labelled as the ‘new social risks’ of the post-industrial society, where the male breadwinner model of households has diminished, industrial employment has decreased and people live longer. Bonoli (2005) describes the ‘new social risks’ as *“reconciling the work and family, lone parenthood, long term unemployment, being among the working poor, or having insufficient social security coverage”* (p. 276). While the occurrence of, and solutions for, these ‘new risks’ vary across countries and between the mature welfare states, one of the highest commonalities between countries is that the young and the low-skilled are more prone to new risks, and hence face higher possibility of being in poverty. A number of policies have been suggested to protect the young and the low skilled and active labour market policies (ALMP) are the prominent ones among these.

ALMP have become an important policy agenda in a number of emerging economies. Unemployment, especially youth unemployment, has become a significant problem and transition from school-to-work has been problematic, where the school system could not address the market’s needs. In addition to unemployment being itself a risk, employment in ‘atypical jobs’ (part-time and/or temporary) (Seeleib-Kaiser, 2010) is also a reason for poverty. Wage differentials between skilled and unskilled workers have increased and skills have been ‘monopolised’ by a small group of people (Thelen, 2004). As a result, inequality between skilled and unskilled employment became especially high and this has been a major problem for emerging economies (EEs). These countries’ economies grew rapidly as they have been restructuring from agricultural production to industrial and service-based production. Nevertheless, this growth was not shared amongst all the population and ‘segmented’ labour markets occurred in these societies (Schneider and Karcher, 2010). A small section of the labour market enjoyed secure and well-paid jobs while others struggled in volatile and often informal employment, which in the end resulted in important levels of inequality in these countries (TABLE HERE: INEQUALITY AND GDP LEVELS IN SELECTED EES). Therefore, policies that could help workers to increase their skills, and hence employability, became significant for these countries. Although outcomes of ALMP vary across countries and are open to discussion, they still constitute an important place in the emerging economies of the post-industrialist era.

Training and re-training occupy a major, if not the largest, share of the ALMP. Viebrock and Clason (2009) describe activation as “increasing the proximity of the unemployed to the labour market”. In

addition to this, measures that increase the employment prospects of individuals, such as up-skilling, are also important for the EEs which are still experiencing significant restructuring in their economies. Training can be provided and financed by the state, employers or individuals. Participation of employers in training is crucial firstly in order to create skills that can address the market needs. They are the ones most knowledgeable about the skill needs of the market and without their participation, the skills generated in training may not match these needs. Moreover, employers' participation will determine the types of skills generated through training, which will then affect the level of employees' employability. Skill types have been categorised with different names by various scholars such as general vs. specific, firm vs. industry specific, high vs. low, or narrow vs. broad (Becker, 1993[1964]; Finegold and Soskice; 1988; Finegold, 1991; Hall and Soskice, 2001; Estevez Abe et al., 2001). The skills defined as general or broad are those that can be used in more than one firm or industry. In contrast, the skills defined as specific or narrow are those that are applicable to fewer firms or industries. In general terms, it has been claimed that if the skills provided are only firm-specific, workers given the training will be more restricted in the transference of these to other jobs, which restricts their employability. In contrast, training of general skills not only will increase workers' chances of employment in other firms and industries (Becker, 1993), but also diffuse that knowledge to those firms and workers working there, which will create a spill-over of knowledge in the end.¹

Although firms' involvement in training carries high importance, they are profit maximising entities and they will not be eager to get involved in training unless it is profitable for them. There are a number of factors that affect firms' involvement in labour training. As described by Lane (2008) firms are "autonomous, strategically oriented actors and [are] shaped by their institutional environment" (p. 232). A high number of scholars in the literature agreed that firms' behaviour are affected by their characteristics, such as its sector and size, and the institutional environment in which it operates, such as the system of industrial relations. For emerging economies, however, the multinational corporations (MNCs) constitute another significant element that affect the production system and management structure of firms and their effects on training patterns have been neglected in the literature. This paper tries to analyse empirically if MNCs from different institutional environments adopt different practices of firm level training and how these differ. It pursues the analysis utilising data of *Enterprise Surveys* in 15 examples of emerging economies, conducted by the World Bank. In the next section I will analyse the literature on the determinants of skill training after which I will bring the MNCs into the picture and discuss their roles in EEs. Later, I will explore the influences of MNCs' home country characteristics on their activities in the host country, with a specific focus on labour training. In the following section I will outline my hypotheses resulting from these diverse fields of work after which I will explain the method. In the end, I will discuss the results and highlight ways to improve this research.

II. Literature on the determinants of training by employers

Being a complex issue by itself, the study of skills systems has been in the interest of students of various disciplines including sociologists, economists and political scientists. Firms can get involved in training of workers through three main methods: within-firm training, formal or informal on-the-job training; organising training collectively with other firms, usually under the umbrella of business associations; and

¹ Standardisation and certification of skills are also important in this regard. It will be easier for workers to change jobs and find employment when they can demonstrate their skill profile through a standardized system.

participating in the state provided initial and further VET programmes, such as apprenticeship programmes (Bussemeyer and Traumpsch, 2012).

a. Firm level characteristics determining training

There are a number of firm-level characteristics that determine firms' utility from labour training and hence, the decision to get involved training or not, and through which method to get involved when they decide to do so. Businesses are utility maximising entities and have diverse interests depending on various factors such as their size, sources of finance, growth prospects, management structure, type and location of their customers, sector of activity and level of technology (van Waarden, 1991) as well as the institutional environment such as level of economic coordination or state policies related to them. It is not really possible to draw thick lines between firms' individual characteristics and their institutional environment as these strongly affect each other. Nevertheless, for practical reasons and in order to carry the analysis, I separated the firm level and institutional characteristics into two groups. Although it is possible to identify a number of institutions that can influence firms' behaviour, the firm characteristics comprise a higher number of variables. For this paper, I identified seven of them that have been prominent in the literature.

First of all, the **technology level** a firm possesses will establish the needs for skills for production. And if these skills are not readily available in the market, firms may find ways to develop these skills themselves, through one of the methods mentioned above (Crouch et. al., 1999). **Size** of the firm is another factor that will affect a firm's involvement in training. Costs of a firm-level training, for example, are expected to decrease as the firm size increases because of the economies of scale related to training (Almeida and Aterido, 2008). Moreover, larger firms will want to have more control on training in order to develop exact skills they want and they face fewer risks related to firm level training, and hence will favour firm-level training to industry-wide ones (Lloyd and Payne, 2000; Mares, 2003). A number of scholars have asserted that **age** is an important determinant for a firm to provide training or not (Almeida and Atarido, 2008; Frazis, Gittleman and Joyce, 2000). Furthermore, **financial resources** of a firm will be important on their decisions to get involved in training or not, and how to get involved when they do. If there are credit markets available to firms, they may make more firm-level training while they may favour collective training when the availability of credit is more restricted (Crouch et. al., 1999). Being engaged **to international trade** increases the level of competition a firm faces and this may force firms to increase a number of features such as productivity and efficiency through training (Katzenstein, 1985; Acemoglu, 1996; Crouch et. al., 1999). In addition, having a **quality certificate** has been vital feature for local companies in EEs to compete in the world market as well as in order to be able to supply to the global manufacturers in their countries. ISO 9001 has been the most prominent one of these whilst there are sector specific certifications, certificates provided by the global MNCs directly as well as certifications required by governments. Provision of labour training is a requirement for the most types of certificates. Okada (2004) also emphasises that these certificates have been one of the main drivers for local firms to provide training to their workers. Last, but not least, **foreign ownership** in a firm is also expected to increase labour training because, for example, of higher capacity and financial opportunities these firms have. The influences of foreign ownership are later discussed more in detail.

b. Institutional environment of the firm

The existence of abovementioned features is not enough to understand the firms' behaviour in labour training. The institutional environment to which a firm is engaged sets up the 'rules of the game' (North, 1990). Occurrence of 'poaching' of the trained workers by other firms is one significant determinant that affects firms' decision on training and institutions are the most important determinant of 'poaching' as well as the factors mentioned above. Scholars from these fields agree that the case of 'poaching' is a crucial determinant, yet they disagree on what affects the occurrence of poaching. The start of the discussion can be seen with Becker's pioneering work (1964). According to Becker (1993; [1964]), firms will provide training to their workers only if the skills generated are going to be 'firm-specific', meaning they will not be useful to other firms. Workers will also be eager to take this type of training since their wages will increase while they will bear no cost. Skills that can be transferred to other firms or industries, however, will be generated by individuals. Because there is the risk of 'poaching', firms will not invest in training that generates these types of skills. It will be the employees who will pay for this training since it will increase their job prospects (ibid). As a result, Becker (1993) argues that governments should not intervene into training systems and let the market decide which type of skills are provided by whom. He suggests that governments should only support policies that will ease borrowing for individuals who may not access training because of financial limitations.

Although Becker's (1993; [1964]) work offers a comprehensive understanding of training systems and employers' role in it, it overlooks a number of issues that affect both firms' and individuals' behaviour. Some of the major criticisms were by Acemoglu (1996) and Acemoglu and Pischke (1998; 1999) who argued that training markets are not completely free and there are 'institutions' that create imbalances between the information the worker and employer has about the labour market, which then decreases the wage of labour below its marginal product and hence, increase employers' willingness to invest in specific skills.

The institutions that may affect the way firms get involved in training have been widely discussed in the comparative capitalisms literature. Common institutions affecting employers' behaviour on training have been the industrial relations, welfare systems, financial system, ownership and management structure, skills system and system of innovation (Finegold and Soskice, 1988; Streeck, 1991; Hall and Soskice, 2001; Estevez-Abe et al., 2001). These institutions 'complement' each other meaning that the existence and endurance of one institution depends on the others. As a result, Hall and Soskice (2001) defined two 'varieties of capitalism' that have developed two distinct types of institutional complementarities. In 'coordinated market economies', production is based on manufacturing of goods that require specific skills. Generation of these skills is risky for both the employers, whose trained workers may be 'poached' by other firms, and the workers, whose employability in other firms will be more restricted than workers with general skills, as the first's ability to transfer his/her skills to other firms will be more limited (Becker, 1993). As a result, employers and the labour developed coordination through business associations and labour unions. On the one hand, 'industry-specific' skills are provided collectively by firms through business chambers. On the other hand, workers with these kinds of skills are protected against risks of having specific-skills via unemployment insurance and re-training services

also provided by the associations (Hall and Soskice, 2001). Germany has been shown as the most striking example of this type of capitalism.

In contrast, in Liberal Market Economies, the economy is based on producing goods that require 'general' skills. Production in these countries is focused on sectors either at the low or high end of the skills spectrum. On the one hand, there are industries desiring low skilled labour with flexible employment, such as the service industry (Finegold and Soskice, 1988). On the other hand, these countries also have comparative advantage in industries requiring large innovation and high skills (Finegold, 1999). Therefore, it is possible to say that the skills systems in these countries produce more 'high' and 'low' general skills (Fleckenstein and Seeleib-Kaiser, 2005). In LMEs like the UK and the US, as a result, a specific-skills based production is not prominent as limitations caused by institutional complementarities (ibid).

c. Skill regimes and institutions in emerging markets

Although the VoC claims are not without criticism (Thelen, 2004; Crouch, 2005; Jackson and Deeg, 2008; Busemeyer and Traumpsh, 2012; Piopiunik and Ryan, 2012), it provides a valuable tool in analysing the determinants of firms' behaviour about training investment. While similar institutional complementarities can also be seen in the emerging economies, other institutions have also been influential on the training patterns of firms. At this point, it is important to mention what emerging markets are and why they are and their skills systems are important. The term emerging markets (EMs) was first introduced by the International Finance Corporation (IFC) in 1981, when it was trying to develop mutual trust funds in relevant countries. Afterwards, the term has been widely used referring to the BRIC nations (Brazil, Russia, India and China) and others including the Latin American, Southeast Asian and Eastern European countries (Khanna and Palepu, 2010). Although all are 'emerging', these countries followed different paths of industrialisation, which led to divergent institutional complementarities.

In addition to the institutions that have been studied by the literature on institutional complementarities in advanced industrialised countries, some scholars explored the impact of other institutions and other factors. First, the state is an important determinant in EEs, and is not exogenous as Schneider (2013) claims (Sanchez-Anchoea, 2009; Amable, 2003). International organisations have also been an important type of institutions determining national practices. There has been a wide literature especially on the IMF, which influenced especially social and fiscal policies within countries through Structural Adjustment Programmes, and the European Union, which mandated the members as well as candidate countries to compel with various measures through the Copenhagen Criteria. Other international organisations also influenced countries through more indirect measures, such as World Bank's regional development projects or NAFTA, which exposed the firms in the North America to survive in a more competitive environment. Ozel (2013) compares the effects of the EU and NAFTA on the social dialogue in Mexico and Turkey. She shows that there have been attempts to increase the dialogue between the social partners in Turkey, which was required by the EU. On the other hand in Mexico, although NAFTA did not have requirements from its members, the level of corporatism is observed to decrease where pluralism became more prevalent.

The role of multinational corporations in the institutional complementarities of emerging economies have also been explored by some scholars. Schneider (2009) puts them at the high level in 'hierarchical market economies'. Moreover, Nölke and Vliegenthart (2009) acknowledge the importance of MNCs and labelled Central and Eastern European countries as 'dependant market economies'. They incorporate the MNCs as the determinants of national capitalisms in these countries². They discuss a variety of characteristics of MNCs and their effects on the host economies. They argue that these countries are 'dependant' on "the transfer of technological innovations within transnational enterprises" and "the provision of capital via foreign direct investment" (p. 672).

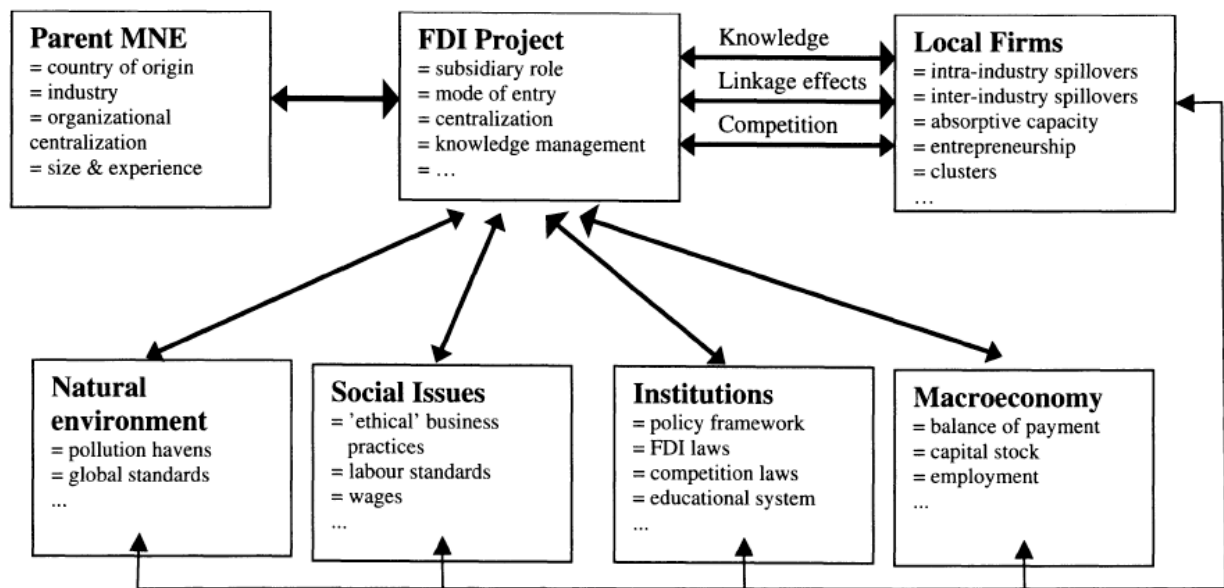
Although these studies offer valuable insight to the role of MNCs in the EEs, they explain them as having uniformed effects on local economies and do not go further to analyse changes depending on the type of the MNC. Nevertheless, there are a number of factors that determine these firms' relations and hence influence on local economies. This study will try to fill this void in research by bringing in the discussion on the effects of MNCs in host economies, benefiting from the literature on International Business (IB) systems as well as the Global Value Chains (GVC).

d. Effects of the global economy

Engagement to the global economy has been a burning question for emerging as well as the developing economies. The connection usually happens either through foreign direct investment (FDI), exports and imports from and to these countries. Scholars could not agree especially on the effects of FDI in the host economy, if it helped to improve it or undermined it. On the one hand, some argue that MNCs create spill-over in the local economy. First, MNCs get into contact with other firms including local supplier firms and diffuse their technological and managerial knowledge to local firms through training them or increasing their technical capacity (Bartlett and Ghoshal, 1989; Blomström and Kokko, 2002). Moreover, MNCs are claimed to increase the skill profile of workers in the local economy through training them and when those workers move to other companies, they are expected to carry their knowledge and experience to there (Meyer, 2004). As a result, MNCs are claimed to contribute local companies and help them to upgrade in the supply chain and hence, contribute to development of the local economy. On the other hand, others claim that MNCs carry only lower value-added activities that require lower technology and skills to new places. Activities requiring higher technology and skills remain at their home country and thus, their positive impact in the local economy is not as high as the first group assumes (Howells, 1990; Heidenreich et al., 2010) and there are no significant effects of MNCs on the local economy (Haddad and Harrison, 1993; Kugler, 2001). A third group even argues that the FDI by MNCs increase competition in the host country and local firms which lack the capacity and opportunities their foreign competitors have and they either go bankrupt or are bought by the MNCs. There are some studies showing the negative effects of the MNCs on the local economy (Aitken and Harrison, 1999; Kathuria, 2000; Djankov and Hoekman, 2000; Konnings, 2001). Humphrey (1999), moreover, argue that the upgrading prospects of firms depend on which type of a value chain they are part of. These show that the effects of and FDI to an EE is a complicated issue and depend on numerous characteristics of the MNC as well as the local economy. Figure 1 shows Meyer's (2004) summary of effects of an MNC can have on the local economy.

² For further discussion on CEE see King (2007) and Mykhnenko (2007).

Figure 1: An organisational framework for FDI impact in emerging economies



Source: Meyer, 2004

In this paper, I focus on how the home country of the MNC affects the training patterns in the local economy. As a number of students of global value chains (GVC) and international business systems (IB) have shown, the institutions of the home country of an MNC is an important determinant of its activities in and hence influence on the host economy (Whitley, 1999; 2005; Kristensen and Zeitlin, 2005; Heidenreich, 2012; Lane and Proebert, 2006; Lakhani et. al., 2013). Some MNCs go to other countries in order to escape the institutional constraints at their home country and take the advantage of institutional settings in other countries, such as more flexible labour regulations (Witt and Lewin, 2007; Lane and Probert, 2006). Others go to other countries in order to, for example, increase their market and prefer to sustain their home country practices in these places (Jackson and Deeg, 2008). There are also some MNCs that try 'institutional arbitrage' and benefit from both home and host country institutional advantages (Lane, 2008; Ghemawat, 2007).

As mentioned above, skill generation systems, and hence training patterns of firms, comprise one of the institutions in the CC literature. This institutional environment will also affect the practices of MNCs in the host countries. The subsidiaries of MNCs in an EE are expected to affect the local economy both directly, through its own actions, and indirectly, through their interactions with the local suppliers and influences on them. While the effects are important in terms of both perspectives, this paper will restrict itself to understanding the practices of subsidiaries in the local economy. Effects through suppliers will be in scope of another paper.

i. Training at the subsidiary

The effects of an MNC in a host economy will depend of a number of factors such as the sector in which it operates, host country characteristics, its size as well as its (in)dependence from the headquarters in making decisions. The influence of host country institutions have been widely discussed in the literature arguing that factors such as regulations and infrastructure in the host country, the cultural and

geographical difference between the home and host country determine the ability of a subsidiary MNC to implement home country strategies (Brouther, 2002; Kostova, 1999; Hofstede, 1980). However, the institutional environment of the MNC's home country will also be influential on its effects on the host economy. This has interested scholars of both International Business Systems (IB) as well as comparative capitalism (Jackson and Deeg, 2008).

The ability of an MNC to carry its home country strategies to the host region is significantly affected by the ability to find a similar institutional setting in the host country. For instance, Geppert, Williams, & Matten (2003) discuss that it was much easier for the British firms to replicate home country practices in the host locations compared to the German ones, as these require strategic coordination and it was absent in the relevant host countries (Jackson and Deeg, 2008). A similar observation can be made about the apprenticeship system in Ireland. The efforts to set the apprenticeship system similar to Germany resulted in targeted goals only because necessary institutions were available (Ryan, 2000).

In addition, the level of control by headquarters in terms of management will affect practices of subsidiaries. Whitley (2003) argues that the institutional regimes of the MNCs determine their governance structure and 'authority sharing' with their subsidiaries in the EE, which then affects the employment structure, skill regimes and career prospects of employees. According to this, there are four types of institutional regimes: particularistic, arm's length, solidaristic collaborative, segmented collaborative (ibid). For instance, MNCs from particularistic business environments will trust the employees in its subsidiary less than the ones from arm's length market economies, as a result of which the subsidiaries from the previous one will be more dependent on the decisions of the headquarter than the ones from the second (Whitley, 2005). These are then expected to have higher influences in the local economy. For instance, Humphrey (1999) showed that the supplier selection of Mercedes in Brazil was carried out by Mercedes Germany and this caused them to buy mainly from global suppliers, rather than domestic ones. The institutional complementarities in MNCs' home country are also important in terms of locating which activities of the value chain in which part of the world. Jackson and Deeg (2008) argue that firms from Germany and Japan are more eager to keep manufacturing activities in the home location as their innovation results from a direct control on the manufacturing process while firms from the US are more likely to carry manufacturing in the host economy.

As it can be seen, institutions of the home country determine whether or not a subsidiary will practice the home country practices, and how much they will be able to do that. A number of studies investigated the human resource management practices of MNCs in host countries, comparing them with host country practices and MNCs from different countries. For instance, Lawler et. al. (1992) found that MNC's home country practices influence its subsidiary's HRM. Moreover, Bae et. al. (2010) show that firms from Europe and the US have influences of their home country management practices in the same host country. In terms of training patterns, there are a number of empirical studies showing that MNCs continued their home country practices in the host country. For instance, MacDuffie and Cohan (1995) found out that Japanese car plants in North America and American plants in Europe show different tendencies in education and training than their counterparts there. The Japanese firms in North America provided more training than the American firms in the same region. Moreover, the American firms in Europe provided less training than the European firms there. In addition to this,

Kenney and Florida (1994) show that Japanese automotive manufacturers located in Mexico have developed some institutions in Mexico similar to the ones in Japan. For example in Japan, there are formal and informal institutions that prevent mobility of workers so that the employers can invest in them. In Tijuana in Mexico, the Japanese companies have developed a similar system through informal means, a 'gentlemen's agreement' between each other so that they will not steal each other's workers.

Lane (2008) argues that clothing and pharmaceutical firms from the US, UK and Germany carry some of their home patterns to their GPNs around the globe. One of the institutions influencing the GPN is the 'system of education and training' in the home country and discusses that this has affected the level of training and monitoring to foreign suppliers. As mentioned before, in LMEs, like the US, the skills system is more based on generating general skills. When these workers enter the workforce, it is likely for them to receive some firm-level training. This will make one to expect American MNCs to carry the HRM practice to host locations and provide more firm-level training. In contrast, in Germany, German firms are part of the education system and workforce with necessary skills is available and certified with formal certificates showing their levels of competencies. Therefore, these firms are expected to provide lower firm-level training compared to the ones from the US. The World Bank *Enterprise Surveys* confirm these expectations. According to it, about 35 per cent of firms in Germany provided firm-level formal training to their workers in 2005 while the OECD average was 41 per cent. Although this dataset do not provide information on the US, it is important that firm-level training by firms in Germany, a country with a reputation of highly skilled workforce is low. These firms are more expected to import workers with necessary skills from their headquarters or try to establish similar institutional structures of their home countries, as the Japanese ones did in Mexico (Kenney and Florida, 1994). However, this is beyond the scope of this paper and needs to be explored further. This paper only aims to see the training patterns of economies under the influence of German and American MNCs.

III. The Analysis and Results

Resulting from the literature on the VoC, IB and GVC, two hypotheses are drawn in terms of the effects of German and American MNCs in the local economy:

H.1. Firms with American partnership will provide more firm-level training.

H.2. Firms with German partnership will provide less firm-level training.

These two home countries of MNCs have been chosen for this study as they comprise the most prominent examples of LMEs and CMEs, having distinct skill regimes and firm level practices. Moreover, these are the countries with the highest share of outward FDI to a number of EEs, which influence the domestic economies of those countries.

To carry out the analysis, the World Bank *Enterprise Surveys* are utilised. World Bank conducts *Enterprise Surveys* around the world, which are also known as *Investment Climate Surveys*. It provides a range of questions asked across time in different countries while some questions change from year to year. These surveys are especially valuable for this paper's aims in that they ask firms a question whether or

not they provide 'formal training' to their workers³ as well as a number other questions on various features of firms such as their size, export intensity, level of foreign capital, sector of activity, which would affect their investment decisions in labour training. Moreover, they ask the same questions to firms in different countries which make the answers comparable⁴. For the aims of this paper, data from countries where surveys were conducted in 2008-2010 are included in the sample.⁵ As a result, the sample contains data from 12,447 firms from 15 countries. These 15 countries are selected from three parts of the world, which are under the economic influence of three industrialised country because of geographical proximity (Kostova, 1999): Latin America-the US, Central and Eastern Europe- Germany and South East Asia- Japan. Nevertheless, 15 countries are not sufficient to understand the effects of these advanced capitalist countries and some important EEs that would add significant value to the analysis could not be included. These are mainly the ones from South East Asia such as Malaysia and Taiwan, which also restricts the number of cases from this region. Some important Latin American countries such as Colombia and Venezuela were also not included at this stage.⁶

The focus of this study has been manufacturing industry. This is because first, manufacturing is especially significant for the future of EEs' development. Moreover, connection to the global economy is very intense in this, where firms get into the value chains of international firms as suppliers or even, as buyers. Finally, while the *Enterprise Surveys* provide data on manufacturing in all countries, retail and service sectors are not covered in some and in order to be able to include all relevant countries in the sample, the focus has been on the manufacturing companies.

THE MODEL

As mentioned before, firms' decision to invest, or not, in training is extensively affected by their firm-level features, the 'institutional environment' the firms operate in. Effects of MNCs have been discussed within the firm level characteristics, recognising MNCs as exogenous variables. This paper, however, brings the home country of the MNC into the picture and analyses its effects on the training patterns in the local economies of EEs.

The question whether or not the firm provides 'firm-level formal training' is used as the dependant variable which will be 1 if the firm does provide training and 0 if it does not. A logistic regression is carried out where occurrence of training is analysed by controlling for firm level characteristics mentioned in II.a above. Moreover, country-level influences are controlled by considering the country random effects, which will significantly shaped by the institutional environment in the host economy as well as the different perceptions of the questions in the survey.

³ "Do you offer formal (beyond "on-the-job") training to your permanent employees?"

⁴ Although, for example, the perception of 'formal training' may differ among countries, it is still valuable to be able to compare the results of individual firms and effects of this can be controlled through also analysing country effects.

⁵ In order to create a comparable data set and not to lose important information

⁶ The model will nonetheless be applied also to these countries when developing this paper further. There is also new data on a number of countries that was published in October 2014 and this data will be applied in the further analysis.

The effects of foreign ownership, that is German or American, on a firm's training behaviour is observed. It can be formalised as follows.

$$\Pr(\text{train}_{ic}=1) = \text{fn}(\alpha X_{icUS} + \beta X_{icDE} + \gamma Y_{ic} + \mu_c + \varepsilon_{ic})$$

Here train_{ic} is a dummy variable that is one when a firm i in country c says that it provides formal training to its workers. This will depend on the function (fn) of a number of factors. X_{icUS} is the level of American capital in the firm while X_{icDE} is the level of German capital. Y_{ic} is firm level characteristics of a firm i in country c . μ_c , moreover is the unobserved country characteristics and ε_{ic} is the unobserved firm level characteristics. This analysis is carried out both among all companies that possess or do not possess foreign capital. It is then pursued only for firms that already possess foreign capital.

a. Descriptive Statistics

Figure 2 shows the average level of training from the different parts of the world while countries included in the sample and their number are shown in Table 1. The average levels of training in three different parts of the world shown in Figure 2 may indicate that the hypotheses suggested may be true⁷. However, as mentioned throughout this paper, there are numerous factors that affect firm level training and it is not possible to make this claim without looking into those factors.

⁷ Here, it is interesting that the firm-level training is also very low in countries in South East Asia, where Japanese MNCs' effects on the host economies would be expected. Nevertheless, the current number of countries from this region is low and the patterns in this region were currently excluded from the analysis, and will be explored more in detail when adding other countries to the sample.

Figure 2: Share of firms providing training

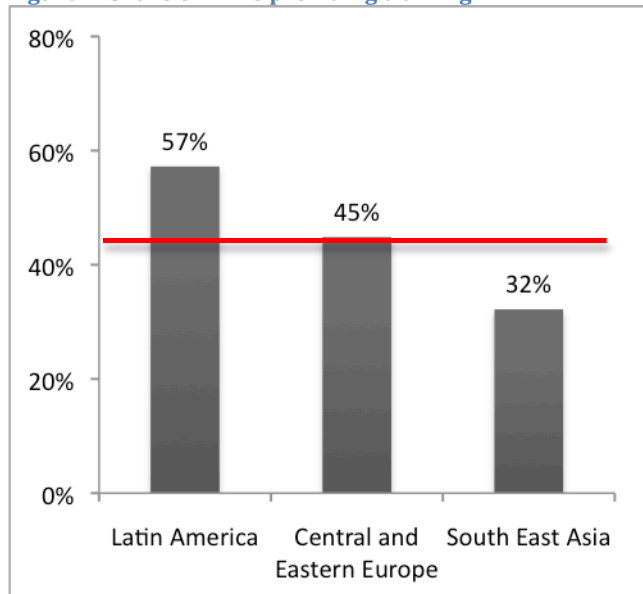


Table 1: Countries in the sample

Location	Number of firms
Latin America	6275
Argentina	1582
Brazil	1339
Chile	1550
Costa Rica	652
Mexico	1152
Central and Eastern Europe	2511
Czech Republic	94
Estonia	90
Hungary	103
Poland	316
Slovakia	86
Slovenia	102
Turkey	1720
South East Asia	3691
Indonesia	1176
Philippines	959
Vietnam	1556
All	12447

Table 2 shows the summary statistics of the variables included in the analysis.

Table 2: Summary statistics

Variable	Observations	Mean	Std. dev.	Min	Max
Train	12385	0.473	0.499	0	1
Technology level					
Resource based production	10711	0.486	0.500	0	1
Low-tech production	10711	0.305	0.460	0	1
Mid-tech production	10711	0.183	0.386	0	1
High-tech production	10711	0.026	0.159	0	1
Size					
Small	12477	0.558	0.497	0	1
Medium	12477	0.116	0.320	0	1
Large	12477	0.163	0.369	0	1
Very large	12477	0.163	0.370	0	1
Age	12382	23.297	19.050	0	210
Credit from financial institution	12241	0.583	0.492	0	1
Export	12431	0.340	0.474	0	1
Turnover	12193	16.619	114.617	0	6950.667
Certificate owner	12395	0.338	0.473	0	1
Share of production workers	12341	72.508	18.679	0	100
FDI patterns					

Average of foreign capital in a firm	11983	10.591	29.492	0	100
Firms with foreign capital	11989	0.130	0.337	0	1
FDI from the US	11989	0.792	3.264	0	24.93
FDI from Germany	11989	0.140	0.979	0	16.5

b. Effects of firm characteristics

Y_{ic} , the firm level characteristics, comprises a number of independent variables. TABLE shows 8 models of logistic regression ($\Pr(\text{train}_{ic}=1) = \beta Y_{ic} + \mu_c + \varepsilon_{ic}$), where one variable is added to the model in each step. Country random effects were controlled in order to capture differences that result from different institutional environments of these countries. The coefficients of variables are more or less likely in each model while some insignificant variables are also recognised. The interpretations will be made by using the last model (6).

The firm level variables were discussed in Section II.a. Effects of all these are analysed in this part. First of all, the variable measuring effects of the technology intensity of firm's production is included. This variable was calculated by using UNIDO (2002)'s technological classification scoreboard where products are analysed into four technology levels: resource-based products, low-tech, medium-tech and high-tech products. This will also determine the place of a firm in the GVC. As expected, the marginal propensity to train increases as the level of technology does: the odds of firms producing low tech goods to produce training are 1.23 higher than the ones producing resource-based goods, while this ratio is 1.94 for the ones producing mid-level technology and 2.69 for the ones with high-tech goods.

The results on Table 3 confirm also the hypotheses about the effects of size. The likelihood to train workers is about the twice of the small firms for medium sized firms while the ratio is 2.3 for large and 2.89 for very large companies. Age, however, was not a significant factor as it was proposed and has been excluded in other models in the Table 3.⁸ Table 3 also confirms the suggested effects of exporting and the likelihood to provide training is 0.5 times higher among exporting firms when compared to the ones selling only to the national market. The possibility of firms' access to borrowing is also important that will affect their investments to labour training and results show that the possibility of firms holding credit are 0.6 times more likely to train than the firms without. Firms with a quality certificate are about two times more inclined to provide training to workers than the ones without (Table 3). This also can be an important indicator of the need for firms in EEs to demonstrate their quality level in order to sell, mainly to the international markets. Foreign ownership was also expected to increase labour training and as it can be seen from Table 3, likelihood for foreign firms or the ones with a foreign partner to provide training is 0.33 times higher than the ones with completely local capital. Among the firm level variables, having a quality certificate seems to be the most important one.

Table 3: Multivariate logistic regression results

	(1)	(2)	(3)	(4)	(5)	(6)
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⁸ It was checked if it was going to be significant in each model.

Technology level						
Low tech	1.52 (0.08)***	1.54 (0.082)***	1.53 (0.082)***	1.31 (0.073)***	1.31 (0.074)***	1.23 (0.066)***
Medium tech	2.35 (0.143)***	2.19 (0.136)***	2.19 (0.137)***	1.77 (0.116)***	1.76 (0.119)***	1.94 (0.125)***
High tech	3.47 (0.554)***	3.43 (0.553)	3.34 (0.552)	2.87 (0.5)***	2.85 (0.505)***	2.69 (0.418)***
Size						
Medium	3.12 (0.212)***	2.73 (0.189)***	2.63 (0.186)***	2.25 (0.165)***	2.24 (0.17)***	2.00 (0.143)***
Large	4.48 (0.279)***	3.54 (0.23)***	3.42 (0.225)***	2.6 (0.179)***	2.57 (0.183)***	2.3 (0.154)***
Very large	7.95 (0.536)***	6.026 (0.425)***	5.61 (0.4)***	3.94 (0.297)***	3.84 (0.297)***	2.89 (0.205)***
Age	0.999 (0.0001)	-	-	-	-	-
Export	-	2.03 (0.106)***	2.01 (0.105)***	1.61 (0.089)***	1.54 (0.09)***	1.51 (0.8)***
Holding credit	-	-	1.41 (0.067)***	1.33 (0.065)***	1.36 (0.069)	1.6 (0.076)***
Certificate owner	-	-	-	3.52 (0.2)***	3.47 (0.2)***	3.19 (0.168)***
Firms with foreign capital	-	-	-	-	1.34 (0.11)***	1.33 (0.1)***
Country random effects	Yes	Yes	Yes	Yes	Yes	No
Observations	10644	10610	10425	10379	9962	9962

Source: Author's calculations using World Bank Enterprise Surveys data 2008-2010.

* significant at 10%, ** significant at 5%, *** significant at 1%. Base level for size is 'small' firms (firm classification: firms with 1-49 employees= small; firms with 50-99 employees: medium; firms with 100-249 employees=large; firms with 250+ employees=very large). Base level for technology category is 'resource goods'. The classification was borrowed from UNIDO (2002).

c. Effects of the origin of foreign capital

Table 3 has shown that the foreign capital has been a significant variable and firms with foreign capital provide more training compared to the ones without. Although this may be true, it neglects the importance of the home country of that capital, which has been emphasized as an important factor throughout this paper. Therefore, it is important to analyse the effect of the home country on training. Unfortunately, the *Enterprise Surveys* do not provide information on the origin of the foreign capital at firm, although they do provide information on the share of foreign capital at firm. Therefore, in order to understand the home country effects, macro data on the country level inward FDI stocks and micro level data on the share of foreign capital at firm are combined. Although this is not the ideal method, the effects are tried to be predicted utilising the available data. This analysis depends on a number of strong assumptions and these need to be kept in mind when interpreting the results. The variable on firm level capital from the US and Germany is constructed through multiplying the share of foreign capital in firm in country *c* and the share of FDI from the US and Germany to that country in its GDP. Using the share in GDP is expected to show the effects of the MNC on the national economy. As a result, two variables were created measuring the foreign capital from the US and Germany. These are added to the model (6) in Table 3 on individually as well as together. The results can be seen in Table 4.

Table 4: Effects of the origin of foreign capital

	(7)	(8)	(9)	(10)
Technology level				
Low tech	1.3 (0.074)***	1.31 (0.075)***	1.15 (0.21)	1.18 (0.215)
Medium tech	1.77 (0.119)***	1.77 (0.119)***	1.87 (0.387)**	1.88 (0.388)**
High tech	2.83 (0.5)***	2.85 (0.51)***	1.49 (0.585)	1.5 (0.593)
Size				
Medium	2.25 (0.17)***	2.24 (0.17)***	7.53 (2.242)***	7.5 (2.236)***
Large	2.56 (0.18)***	2.58 (0.18)***	2.74 (0.573)***	2.74 (0.573)***
Very large	3.88 (0.3)***	3.85 (0.3)***	5.05 (1.118)***	5.03 (1.115)***
Export	1.53 (0.088)***	1.53 (0.087)***	1.29 (0.214)	1.3 (0.217)
Holding credit	1.36 (0.069)***	1.36 (0.069)***	1.08 (0.166)	1.07 (0.163)
Certificate owner	3.45 (0.199)***	3.46 (0.199)***	3.59 (0.57)	3.64 (0.575)***
Firms with foreign capital	1.042 (0.109)	1.43 (0.127)***	-	-
Share of American capital	1.05 (0.013)***	-	1.09** (0.04)	-
Share of German capital	-	0.93 (0.03)**	-	0.85** (0.05)
Constant	0.7 (0.273)***	0.69 (0.274)***	0.16 (0.059)***	0.41 (0.146)*
Country random effects	Yes	Yes	Yes	
Observations	9962	9962	1302	1302

Source: Author's calculations using World Bank Enterprise Surveys data 2008-2010.

* significant at 10%, ** significant at 5%, *** significant at 1%. Base level for size is 'small' firms (firm classification: firms with 1-49 employees= small; firms with 50-99 employees: medium; firms with 100-249 employees=large; firms with 250+ employees=very large). Base level for technology category is 'resource goods'. The classification was borrowed from UNIDO (2002).

As it can be seen, no major change has been observed on the variables included in the previous analysis, except the ones on the effect of foreign capital. According to Table 4, the marginal propensity of a firm to provide training increases as the share of US capital increases and decreases as the share of German capital increases. These are in line with the hypotheses suggested. When the share of American capital is added to the model by itself, 1 per cent increase in the share of American capital increases the likelihood of firm level training by 0.05 times. In this model, the variable showing if the firm has foreign capital or not becomes insignificant, which may be an indicator that could not yet be recognised. Moreover, if the variable showing the share of German capital added, the model indicates that an increase in the share of German capital decreases the firm level training by 0.07 times and the variable of foreign capital remains significant. Further, when the analysis is conducted only among firms with some level of foreign capital, appealing results are gained. Firstly, it is recognised that a number of firm level characteristics that were important in other models become unimportant for foreign firms. Nevertheless, similar results regarding the American and German capital observed: while an increase in

the share of American capital increases the likelihood by 0.09 times, an increase in German capital decreases it by 0.15. All these variables continue to be statistically significant.

Discussion and Conclusion

The importance of the involvement of firms in training is increasing as ALMP are becoming applied more in countries. The method of firms' involvement, nevertheless, plays a crucial role on the outcomes of these practices. As the literature suggested, the firms will provide skills that cannot be poached by other companies or if there are institutions that will affect the outcomes of the training. From the labour's perspective, they will be more eager to participate in training of more general, or 'transferable', skills which they can apply to other firms and industries. Only training that can help workers to work also in other firms will increase their employability in reality.

Firms' involvement in training activities has been widely discussed. The involvement of subsidiaries of MNCs in training is also important in terms of the effects of MNCs in the local economies. On the one hand, these effects have been discussed for a long time, especially by the students of development. Although these acknowledged that the impact depended on various elements related the MNC, effects of MNCs' home country institutions have been rarely studied. On the other hand, researchers of globalisation and management of global value chains have been exploring the activities of the MNC subsidiaries and debating on how much they could pursue their home country strategies and what determined these. A significant share of these studies focused on the effects of home country institutions and the possibility of their transfer, and which types of activities could be transferred. Nevertheless, these two literatures seemed to be disconnected while they carried valuable insight to each other, which would help a better understanding. In this paper, I tried to connect these literatures and tried look through the eyes of both the EEs as well as the home countries of the MNCs, which are advanced industrialised countries. This approach is unique and may bring about further studies which will help to understand the activities of the MNCs and their effects on the host economies.

In this paper, I discussed that the American MNCs could replicate their home country strategies in the host countries, especially because it would be easier to find similar institutional settings, based on market coordination. In contrast, it would be more difficult for German companies as they depend on a unique set of institutional complementarities based on strategic cooperation between firms as well as workers. Therefore, these firms are not expected to provide firm-level training. For this, a multivariate analysis was carried out where country random effects were controlled for. When a number of firm level characteristics were also controlled, the empirical results from 15 emerging economies showed that the level of capital from the US increases the possibility of a firm to provide training while an opposite pattern can be observed for firms with German capital. These results are in line with a number of studies on the management strategies of the value chains (Lane, 2008). Therefore, it may be claimed that although American firms provide more training in the host economies, the impacts of this training will be restricted because these are composed of more firm-level training, whose impact on employability will be more restricted. Nevertheless, it is a strong statement since there is no information how formal training is defined, if certification is provided, what type of training is provided and who took the training. Still, these findings provide some insight in understanding the MNC practices in host countries.

Although this paper brings significant comprehension of MNCs' influence on local markets, it is not without shortcomings. First of all, the empirical method is especially restrictive as all of the necessary variables are not available in the data set and hence, were constructed by myself. Moreover, although the statistical method contributes an important insight and in this study institutional effects of host countries were aimed to be controlled through having the country random effects, the results may not be sufficient to make ambitious generalisations. The number of countries currently included is also low which will restrict generalisation. Therefore, this needs to be developed into a model including higher number of countries while should be supported by case studies.

In spite of the limitations, this paper is valuable in that it combines fields of work that have been carried out separately and which can make significant contributions to each other. Furthermore, the effects of home country institutions on practices of MNCs have been widely debated, yet empirical evidence on a large sample has been missing. This work carried the analysis via utilising a large dataset, which can also be applied to other countries, as long as the Enterprise Surveys are available. Moreover, it carries out the analysis of MNCs' home country effects via controlling for a number of firm level characteristics, which could not be carried out systematically in the existing qualitative research. As a result, this work may be an introduction to that kind of research and lead more empirical work on the effects of MNCs.

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