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The Effects of the National Setting on Employment Practice: the Case of Downsizing

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May 2013

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Abstract

Although there is now a sizeable body of academic literature that tries to explain cross-country differences in terms of corporate control, capital market development, investor protection and politics, there is as yet very little literature on the degrees of protection accorded to other corporate stakeholders such as employees, based on a systematic comparison of firm level evidence. We find that both theories of legal origin and the varieties of capitalism approach are poor predictors of the relative propensity of firms to make redundancies in different settings. However, the political orientation of the government in place and even more so the nature of the electoral system are relatively good explanators of this propensity. In other words, political structures and outcomes matter more than more rigid institutional features such as legal origin. We explore the reasons for this, drawing out the implications for both theory and practice.

Keywords: Capitalist Systems, Corporate Governance Systems, Downsizing, Employment Practices, Mergers and Acquisitions

JEL Classifications: G34, P1, M12, M51

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Although there is now a sizeable body of academic literature that tries to explain cross-country differences in terms of corporate control, capital market development, investor protection and politics, there is as yet very little literature on the degrees of protection accorded to other corporate stakeholders such as employees, based on a systematic comparison of firm level evidence. We find that both theories of legal origin and the varieties of capitalism approach are poor predictors of the relative propensity of firms to make redundancies in different settings. However, the political orientation of the government in place and even more so the nature of the electoral system are relatively good explanators of this propensity. In other words, political structures and outcomes matter more than more rigid institutional features such as legal origin. We explore the reasons for this, drawing out the implications for both theory and practice.

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1. INTRODUCTION

There is now a sizeable body of academic literature analysing cross-country differences in terms of the development of capital markets, corporate governance and investor protection as well as organizational human resource management (HRM) outcomes. The first attempts to categorize different systems of capitalism, and their implications for internal organizational practice, go back to the seminal work of Hicks (1969) and Chandler (1977, 1984). Hicks distinguished between market-based economies and bank-based economies and Chandler uncovered differences between the US, British, German and Japanese forms of capitalism. Mayer's (1988) study shows that bank financing in France, Germany and Japan is significantly more important than in the UK and the USA. A carefully argued piece by Aggarwal and Goodell (2010) explores some of the antecedents of the choice between bank financing and market financing. Amable (2003) and Hall and Soskice (2001) define different varieties of capitalism based on the importance of markets and informal networks, whilst other writers highlight differences in terms of the degree of protection accorded to investors (La Porta et al. 1998; Roe 2003). Oliver and Cravens (1999) confirm the importance of national differences to explain variations in aspects of the employment package, a point supported by Witt and Redding (2009) and Hempel (1998).

On the one hand, it can be argued that an ability to adjust workforces readily is a prerequisite for organizational survival in challenging times (Djankov et al. 2003). On the other hand, it can be argued that low commitment towards employees reduces the chances of mutually beneficial synergies and the development of organization specific human capital (Dore 2000). However, whatever the benefits and costs of downsizing, this is an area where context is likely to have a particularly strong impact on organizational practice (Whitley 1999); what is, however, more contentious is what contextual features exert a particularly strong 'pull' on firm level practice.

Although each of the above-mentioned comparative institutional frameworks provides empirical evidence in support of their arguments, much of this is macro-level evidence on broad economic trends, rather than comparisons of actual firm practices. In terms of the latter, key concerns of the existing literature have been variations in union power and employee voice and the relative investment of firms in their people (c.f. Hall and Soskice 2001; Amable 2003). Although some attention is given to issues of staff turnover, its nature, and whether it reflects voluntary exit or forced redundancies, has been neglected. This paper seeks to redress this lacuna through focusing on the latter. Political science orientated approaches suggest that national systems are relatively dynamic, with firm practice representing the outcome of on-going political contestations (Gourevitch and Shinn 2005). It is possible that the relative propensity of firms to make redundancies may at least in part reflect the political environment of the time. Right wing governments generally emphasize their sympathy with the interests of employers, whilst governments of the left are more likely to be

concerned with the relative position of their natural constituents, waged rank and file employees and the unemployed (see Farrell and Schmitt-Beck 2002). This would suggest that the relative propensity of firms to make layoffs is not nearly as predictable as an analysis of the literature on varieties of capitalism or juridico-legal (leximetric) theories of legal origin approaches would suggest.

We explore these issues through a large-scale survey of practice in 16 western European countries and Israel. The paper firstly explores three different strands of thinking about factors that may impact downsizing, presents the data and the measures that we use to test these theories, the findings from doing so, and draws conclusions. We find that the nature and use of various forms of the critical process of organizational downsizing vary by country, and correspond with electoral systems and political dynamics, rather than the well known legal origin and varieties of capitalism categorizations. Thereafter, we draw out the implications for theory, policy and practice.

2. LITERATURE REVIEW

In this section, we compare and contrast two different strands of thinking. First, we explore the theories that examine the effects of the legal system and governments on firm practices. Second, we move on to examine the more firm-centred analyses of the varieties of capitalism literature, which emphasize the importance of a multiplicity of firm-centred relations that are embedded across specific types of national context. We summarize the predictions of these theories in Table 1, and go on to test these predictions in the empirical section.

2.1. Theories on the possible effect of the national,sSupra-national and sub-national frameworks on employment practices

There are two particularly influential strands of contemporary institutional theory arguing that the country in which an organizational is located affects its behaviour. These base their understandings on the role of law and the law-makers (politicians) on the one hand, and on more eclectic analyses of varieties of capitalism on the other hand.

2. 1.1 Juridico-political or hierarchical approaches

La Porta et al. (2000) distinguish between common-law countries and civil-law countries. They argue that common law provides better investor protection than civil law. Subsequently, they directly linked this to the issue of employer and employee rights (Djankov et al. 2003). They suggest that employer and employee rights are essentially dichotomous: if the one is stronger, the other is weaker. Civil law countries are characterized by weaker employer and stronger employee rights; the converse is true in common law countries. Hence, they suggest, in common law countries, it should be easier to shed staff, which represents a real source of competitive advantage.

According to Pagano and Volpin (2005), the type of electoral system determines the levels of protection enjoyed by employees and investors. They distinguish between proportional and majoritarian electoral systems. In a proportional system, winning a majority of votes ensures victory whereas, in a majoritarian system, it is crucial to win a majority of constituencies. Their theoretical model predicts that a proportional system results in stronger employee rights but weak investor protection, whereas a majoritarian system results in exactly the opposite outcome. Indeed, proportional systems force politicians to focus on social groups with homogeneous preferences, e.g. workers and managers. Conversely, in majoritarian voting systems politicians tend to focus on the preferences of floating voters in the pivotal districts.

What all these theories have in common is their emphasis on the importance of owner rights; unless they are paramount over the rights of employees and other stakeholders, organizational performance will necessarily be sub-optimal. This would suggest that, in contexts where owner power is strong, organizations will be more able to and capable of shedding staff as and when needed.

2. 1.2 Varieties of capitalism and corporate governance: institutions as providers of alternative sets of complementarities

The rapidly expanding varieties of capitalism (VOC) literature places firms at the centre of comparative analysis (Hall and Soskice 2001, 4). The VOC literature holds that corporate governance depends on the presence of 'regulatory regimes that are the preserve of the nation state'; in common with juridico-political approaches, they see national level differences as crucial in understanding the relationship between ownership structures and employment practices. However, whilst the state plays a central role in mediating interest groupings, they suggest that the nature of corporate governance reflects the product of a complex web of relationships that transcend law and state policy.

But, what varieties of capitalism are there? The most common distinction is a simple dichotomy between liberal markets and more cooperative alternatives (Dore 2000; Hall and Soskice 2001; Lincoln and Kalleberg 1990). For example, Hall and Soskice (2001, p.49) argue that liberal market economies (LMEs) are associated with political systems that tend to concentrate political power in the executive, whilst coordinated market economies (CMEs) tend to be governed by consociational,[i] coalitional or quasi-corporatist regimes. In LMEs, coordination is based on market mechanisms, favouring investment in transferable assets; in CMEs, coordination is by non-market means, favouring investment in specific assets (Amable 2003, p. 13). In other words, the fluid market settings of LMEs encourage investors to focus on readily switchable assets, whilst in CMEs dense institutional networks encourage longer term investment policies in specific assets (Hall and Soskice 2001, p. 49). In the case of the latter, encompassing producer groups find it easier to build alliances and implement coordination orientated policies; in the former, adversarial competition and low trust are associated with market-incentive government policies (Hall and Soskice 2001, p. 49). CMEs are likely to be

associated with higher degrees of employer-employee interdependence and more delegation to employees (Whitley 1999). In summary, within CMEs, a focus on stakeholder interests is associated with both firm level practices and a wider governance regime. Within LMEs, certain firm level employment practices are complementary to an emphasis on shareholder value, and a wider political framework. Again, these theories assume that employer-employee interdependence is greater in a coordinated market setting and that, in such cases, firms are more reluctant to shed staff, particularly on a compulsory basis (Whitley 1999)

2. 1.3 Political Science Approaches

Roe (2003) ties the firm's structure to political dynamics. Roe argues that differing interest groupings – most notably labour and property owners - compete with each other via politics, to pursue their own rent-seeking agendas. In practical terms, social democratic policies will make for concentration of firms and encourage corporatist deals. In contrast, more conservative politics favours the interest of property owners. Roe argues that distinct historical traditions will in some settings favour one type of politics over the other, but there may be policy shifts as the programmes of parties change. Hence, Roe (2003) argues that the driving force behind corporate governance is politics, reinforcing the notion that differing polities lead naturally to differing labour rights. If left to their own devices, managers prefer to pursue growth objectives rather than the maximisation of shareholder value. Social democratic policies hence lend themselves to the classical agency problem. According to Roe, left-wing governments favour employees over investors, worsening things for investors. This would suggest that firms will be more reluctant to dismiss workers in such settings, when compared to more owner-friendly contexts.

Table 1 provides a summary of the predictions of the distinct theoretical traditions identified above regarding employment practices. In subsequent sections, we will re-examine these predictions in the light of the survey evidence.

<<Table 1 about here>>

3. DATA SOURCES AND METHODOLOGY

3. 1. Data Sources

This paper is based on the Cranet survey, which gathered evidence on organizational practices in 22 countries (Brewster, Mayrhofer and Morley 2004). The data set used in this paper focuses on the sixteen West European states encompassed by the survey as well as Israel.[ii] Cranet is a survey of HR managers, using close-ended questions in most cases, precluding prevarication or ambiguous responses. The two indices on political orientation of the governments in place are taken from Cusack

and Engelhardt (2006). The use of company data rather than aggregate national data makes it easier to generalize our results by using industry dummies to adjust for differences within and across countries. The countries from the database for inclusion in this study cover all those for which the data for our purposes are robust and include examples of different legal and political systems and varieties of capitalism, in line with our interests.

The survey covers all sections of the economy and only excludes the smallest organizations, i.e. those with less than 100 employees. As far as possible, the survey asks for facts, not opinions, with most answers being either numbers, or percentages or yes/no answers. The response rate overall is 17%, ranging from just over 10% (Italy) to 41% (Czech Republic); these figures roughly correspond to those obtained by professional marketing surveys of customers as a basis for management decision making (Infosurvey 2007). As Babbie (1995, p. 261) notes, there is considerable debate as to what constitutes an acceptable response rate. A limitation with the research is that respondents who are most interested in the study are most likely to reply which, in turn, would be partially a reflection of how seriously the relevant organization takes HRM issues: thus, those who have particular interests in particular issues are most likely to respond.

3. 2. Data Description and Methodology

Table 2 reports the definitions of the variables. The descriptive statistics are reported in Table 3.

<<Table 2 and Table 3 about here>>

Given that the nature of the dependent variable, i.e. the type of employment practice used to downsize the workforce, is discrete and that there is also a clear order of preference in the employment practices (see below), the appropriate estimation technique is an ordered probit which takes into account both the discrete nature of the dependent variable and the inherent order of preference between the different employment practices. In order to estimate the likelihood of different types of employment practices, we run an ordered probit regression containing all or part of the variables in equation (1):

$$\begin{aligned} PRACTICE_i^* &= \alpha + \beta_1 \log(SIZE_i) + \beta_2 BLUE\%_i + \beta_3 CHANGE_i + \beta_4 MARKET2_i \\ &+ \beta_5 MARKET3_i + \beta_6 AGE_i + \beta_7 PROFIT_i + \beta_8 SUBSINT_i + \beta_9 MERGER_i \\ &+ \beta_{10} POLITICALAND\,LEGAL_i + \beta_{11} COUNTRY_{ij} + \beta_{12} IND_{ik} + \varepsilon_i \qquad (1) \end{aligned}$$

where $PRACTICE_i^*$ is an unobserved latent variable, $PRACTICE_i$ is the observed variable , μ_1, …, μ_7 are unknown positive[iii] threshold parameters to be estimated with the $\beta's$, ε_i is normally distributed, and

$PRACTICE_i =$ 'compulsory redundancies' (or 8), if $PRACTICE_i^* \geq \mu_7$,

$PRACTICE_i =$ 'outsourcing or outplacement' (or 7), if $\mu_7 > PRACTICE_i^* \geq \mu_6$,

$PRACTICE_i =$ 'no renewal of fixed/temporary contract' (or 6), if $\mu_6 > PRACTICE_i^* \geq \mu_5$,

$PRACTICE_i =$ 'early retirement' (or 5), if $\mu_5 > PRACTICE_i^* \geq \mu_4$,

$PRACTICE_i =$ 'voluntary redundancy' (or 4), if $\mu_4 > PRACTICE_i^* \geq \mu_3$,

$PRACTICE_i =$ 'redeployment' (or 3), if $\mu_3 > PRACTICE_i^* \geq \mu_2$,

$PRACTICE_i =$ 'recruitment freeze' (or 2), if $\mu_2 > PRACTICE_i^* \geq \mu_1$,

$PRACTICE_i =$ 'no restrictive employment practices, but number of employees has remained the same' (or 1), if $\mu_1 > PRACTICE_i^* \geq 0$,

$PRACTICE_i =$ 'no restrictive employment practices and number of employees has increased' (or 0), if $0 > PRACTICE_i^*$.

and the independent variables are as defined in Table 2[iv].

Concerning the ranking of the dependent variable, the literature tends to rank the effects of organizational downsizing on employees in order; compulsory redundancies having the most serious effects on employees, both economically and in terms of their psychological well-being (Williams and Adam-Smith 2006: 250-256; Gennard and Judge 2005: 329-341). Employers may seek to vary the amount of labour in a range of manners: downsizing and delayering has become an increasingly common practice since the 1980s, in contrast to the earlier 'golden age' of the 1950s and 1960s (Gold 2003: 192-193). The cost of labour is the largest single element of operating costs for the vast majority of organizations, so in circumstances where organizations are under great pressure to reduce the 'bottom line' it is inevitable that employees are treated as a number in an effort to cut costs (Gold 2003: 202). However, this process itself is not without costs to organizations: it may result in a loss of valuable knowledge and skills, and may lead to the remaining employees feeling insecure, uncommitted and less motivated. Hence, organizations have incentives to first try softer mechanisms for adjusting workforce sizes, although all are harder than no change in policy at all.

First, there are alternatives to redundancies. A modest way of constraining labour costs, common in mature firms, is to place less emphasis on recruitment with a view to maintaining present staffing levels and attributes (Kochan et al., 1988). Secondly, there is the possibility of freezing new posts (Storey and Wright, 2001, p. 252). In other words, this would entail the gradual reduction of workforce size, without threatening the tenure of existing incumbents, although this may entail an intensification of work, hence leaving employees less well off than before. In more collaborative market economies, a third somewhat 'firmer' option, should the softer alternatives not yield a sufficient reduction in labour costs, is redeployment: this allows organizations to retain existing skills and knowledge and have them readily available when again needed. However, redeployment is not without cost to employees as, in most cases, workers redeployed are relegated to lower graded posts

(Redman and Wilkinson, 2006: pp 362-363). Hence, it may entail wage cuts, and is thus worse for employees than a recruitment freeze. Fourthly, there are voluntary redundancies. In theory, this is 'softer' than compulsory workforce adjustments in that 'employees are given a choice' (Redman and Wilkinson, 2006: pp. 360; McMullen, 2011). Employees who are readily able to find employment elsewhere may profit from redundancy payouts, and the loss of a job is somewhat de-stigmatized. However, in practice, it is still demonstrably worse for employees than any of the above alternatives in that targeted employees may be pressurized (Redman and Wilkinson 2006, p. 360; McMullen, 2011). Fifthly, there is the option of early retirements. Whilst this might seem to be more attractive than voluntary redundancies, it may result in intensive pressure being placed on older workers to exit, and hence, amount to a form of discrimination (Harcourt et al., 2004). Moreover, older workers ejected in this way may battle to find employment again, given the prejudices many organizations hold over the employment of older workers, placing a great strain on pensions and other forms of saving. Sixthly, there is the option of not renewing temporary contracts. Across Europe, there has been a growing usage of temporary and contingent labour (Bratton, 2003, p. 88): this represents a way of ensuring greater numerical flexibility without the formal costs associated with redundancies, albeit that the informal costs may still occur. Hence, this is a 'harder' option than recruitment freezes or redeployments. Firms may also opt for a seventh option, outsourcing or outplacing work, which entails transferring employees over to a sub-contractor. Whilst employees do not formally lose their jobs, it is likely they will work under significantly inferior terms and conditions of service (McMullen, 2011). However, these options may not be sufficient to reduce workforce sizes, necessitating enforced redundancies, clearly a 'harder' option for employees than the non-renewal of temporary contracts (Bratton 2003). Despite this, critics argue that, in liberal markets, compulsory redundancies remain the preferred (and simpler) option for many employers, owing to the ease with which staff can be dispensed with (Redman and Wilkinson 2006, p. 361).

The ordered probit regression includes a number of control variables adjusting for firm- and market-specific characteristics.[v] One of these variables is SIZE, our measure of firm size as proxied by the total number of employees employed by the organization. McGuckin and Nguyen (2001) find evidence that job losses around ownership changes tend to be more substantial in larger factories. Hence, we expect firm size to increase the likelihood of more restrictive employment practices. Again, an influential body of the corporate governance literature suggests that leaner organizations tend to be more efficient: in contrast, larger firms are prone to empire building by managers who use the opportunities afforded by greater organizational resources to further expand the organization in order to enhance their own prestige (c.f. La Porta et al. 1997). BLUE% is the number of blue-collar workers expressed as a percentage of the organization's total workforce. Lichtenberg and Siegel (1992) report that the number of white-collar employees decreases after mergers, whereas that does not apply to the number of employees engaged in production. It could be argued that it is easier to

rationalise support staff than those engaged in core line operations (c.f. Millward and Stevens 1987). Conversely, more recent literature on outsourcing would suggest that a counter-tendency may increasingly be at work: organizations outsourcing their production, whilst retaining in house core knowledge and support workers (Goerg and Hanley 2005). CHANGE is the absolute value of the change in the number of employees. In the coordinated markets of Europe, downsizing involving a larger number of employees requires considerable legal compliance and will, therefore, unavoidably come up against relatively stricter employment policies. More specifically, in coordinated markets, there is stronger protection against collective dismissals, in contrast to the individual rights based approaches dominant in liberal markets (Harcourt and Wood 2007). MARKET2 and MARKET3 are dummy variables which are set to one if the firm's market share has been stagnant or declining, respectively, over the last three years. We expect downsizing to be more likely and to take on harder forms in ailing firms. Likewise, older firms are more likely to operate in mature or shrinking markets which may require a substantial adjustment of the workforce. Similarly, the firm's profitability is likely to have an impact on the likelihood of downsizing. PROFIT is an ordinal variable which takes on the values of 1 for large losses, 2 for earnings that are insufficient to cover costs, 3 if the firm breaks even, 4 for a small profit and 5 for a large profit. SUBSINT is a dummy variable which is set to one if the firm is a subsidiary of a foreign company. For example, the subsidiary of a large multinational is unlikely to be influenced as much by the respective nation's polity as is a local organization. This reflects the fact that MNCs are likely to be more susceptible to political pressure against redundancies in their country of origin, than in any other country they operate in; it has been argued that they will tend to prioritize jobs in the former over the latter (see Muller-Carmen et al. 2003). The evidence also points to the on-going tension for MNCs between standardized global policies and practices and local awareness and adaptation, classically captured by Birkinshaw, and Morrison (1995), Lawrence and Lorsch (1969) and Roth and Morrison (1990). Finally, MERGER is another dummy variable. This variable is set to one if the organization was involved in a merger or acquisition over the last three years, and zero otherwise. Mergers and takeovers form part and parcel of a broader process of industrial consolidation and restructuring (Kern and Schumann 2000: 255). This process has driven trends towards the restructuring of workforce compositions and, more generally, leaner staffing (ibid.: 256-7). Rajan and Zinales (2003) argue that incumbent managers and labour will tend to mutually align: this will be challenged by a takeover.

Table 1 summarizes theoretical predictions as to the effects of the different political and legal variables on employment practices. In detail, if Roe (2003) is correct, the coefficients on the political indices are significant and positive given that these indices are positive and increasingly so for more conservative governments whereas they are negative and increasingly so for more left-wing governments. If the legal theory is valid, the dummies for the civil-law countries are significantly negative and/ or those for the common-law countries are significantly positive, reflecting the rent-

seeking behaviour of employees in the former and/or the greater ease of downsizing the workforce in the latter. The validity of the VOC theories is supported by a significantly positive intercept, which picks up the UK country effect, a significantly positive country dummy for Ireland, the other LME, and negative country dummies for all the other countries, the CMEs. Further, one of the regressions includes LME, a dummy variable which is set to one for companies from the two LMEs in the sample, i.e. Ireland and the UK, and zero otherwise. If the VOC theories are supported by our data, this dummy has a positive coefficient.

The above probit regression also includes firm and industry characteristics to test whether these explain the differences in employment practices in addition to the characteristics of the national framework. There may also be identifiable clusters of employment practices not only along national, but also local, and industrial, lines, reflected by significant country and industry dummies (Hollingsworth 2006, Boyer and Hollingsworth 1997).

4. EMPIRICAL RESULTS

Table 4 contains the results from the estimation of the ordered probit regressions based on variations of equation (1). In what follows, we shall focus on the first nine regressions reported in the table; we will discuss the last two regressions at the end of this section. The threshold variables μ_1, …, μ_7 in all of the nine regressions are all highly significant and in the correct order as to their relative size (see Panel E) which suggests that the ordered probit is the correct estimation technique. Panel A of Table 4 reports the coefficients for the control variables, i.e. the firm and market characteristics such as size and profitability. All of the regressions contain all of these variables.

Regression (1) is the only regression not containing any of the variables on the organization's political and legal environment (reported in Panel C), but is also the only regression (apart from the two robustness tests which we discuss later) to contain country dummies (reported in Panel B). In a way, regression (1) operates as an acid test, testing whether there are clusters in terms of common practice across various nations. Apart from regression (1), all the other regressions contain variables measuring the political and legal setting a firm operates in, i.e. the potential national factors that may impact on employment practice (see Panel C). The political and legal variables that are included vary across the regressions. In detail, regressions (2) and (3) test whether the La Porta et al. (1998) classification of countries along the lines of four legal families (English, French, German and Scandinavian law) explains differences in employment practices across countries. While regression (2) includes three dummies for French, German and Scandinavian law, regression (3) includes a single dummy for English law. Regression (4) tests the dichotomous version of the VOC theories as it includes a dummy variable that equals one for companies from the two LME countries covered by this study, i.e. Ireland and the UK. Regressions (5) and (6) test Roe's (2003) politics theory using

MYRL and RILE, respectively, as a measure for each government's political orientation. MYRL, which ranges from -100 (extreme left) to +100 (extreme right), measures the political orientation of a country's government in terms of its views on ten different market regulation and wealth distribution issues. RILE, which has the same scale, measures the government's political orientation in terms of a wide range of economic and social issues (see Cusack and Engelhardt 2006 for further details).[vi] Regression (7) contains Pagano and Volpin's (2005) proportionality index, testing whether countries where more seats are allocated via the proportionality rule have less stringent employment practices. Finally, regressions (8) and (9) are a joint test of the validity of all three theories as they include the dummies for La Porta et al.'s (1998) legal families, one of the politics indices (MYRL for regression (8) and RILE for regression (9)) and the Pagano and Volpin (2005) proportionality index. Finally, we also include the coefficients for the 16 industry dummies, which measure the potential impact of supra-national pressures on employment practice. However, due to space constraints the coefficients are not reported in Table 4.[vii]

We start by analysing the results from the firm and market characteristics in Panel A. We do this across the nine regressions given that the coefficients on most firm characteristics are fairly stable in terms of their significance and magnitude across all the nine specifications. The coefficient on SIZE is positive and highly significant (at the 1% level) in all the nine regressions: the larger the firm the more likely it will use employment policies that hit the workforce harder. This result complements at the firm level McGuckin and Nguyen's (2001) evidence that job losses tend to be more substantial in larger factories. There is also some evidence (from five out of the nine regressions) that older firms (AGE) are more likely to perform more wide-ranging downsizing, possibly reflecting the fact that such firms operate in mature markets with overcapacity. The coefficient on the percentage of blue-collar workers (BLUE%) is highly significant with a negative sign in all of the nine regressions, implying that firms with more manual workers are less likely to choose employment policies with more adverse effects for their employees.[viii] The coefficient on the magnitude of the change (CHANGE) in the number of employees is always highly significant (at the 1% level) and negative, implying that when firms make more substantial adjustments to their workforce they tend to use a wider range of employment practices rather than straightforward forced redundancies.[ix] Further, there is very strong evidence of a link between the state of the market the firm is selling into and the firm's employment practices. Firms that operate in stagnant markets (MARKET2) are more likely to downsize their workforce and use harsher means to do so. Those that operate in declining markets (MARKET3) are even more likely to do so. A similar conclusion can be drawn as to the profitability variable (PROFIT): firms that are less profitable are more likely to engage in HRM practices that more severely affect the workforce. This is in line with Denis and Kruse (2000). The dummy which equals one if the firm is the subsidiary of a foreign company (SUBSINT) is significant (at the 5% level) in regression (1) only, providing weak evidence that firms which are subsidiaries of foreign

companies are subject to more stringent job reductions. There is also some evidence that firms that have been involved in mergers and acquisitions over the three years preceding the survey have more stringent HRM policies. Indeed, the coefficient on the dummy variable MERGER is positive and significantly different from zero (at the 10% level or better) in the first six regressions. The fact that all of these firm- and market-specific variables are significant echoes existing empirical research by McGuckin and Nguyen (2001) and others.

Panel B reports the coefficients on the country dummies which, as stated above, are only included in regression (1) as well as the two robustness regressions we shall discuss later. The first seven coefficients are those for the countries (Belgium to Spain) with French law, the next three are for countries (Austria to Switzerland) with German law, followed by the four countries with Scandinavian (or, more accurately, Nordic) law and the two countries (Ireland and Israel; the dummy for the UK is omitted from the regression to avoid perfect correlation between all the country dummies) with English law.[x] The following patterns emerge. First, all of the coefficients (except for Finland), including those for the two countries with English law other than the UK, are highly significant (at the 1% level or better). This suggests that all of the countries – apart from Finland – have employment practices that are significantly different from those of the UK (measured by the regression's intercept). Second, the four families of law roughly fit with our predictions based on La Porta et al. (1998). In detail, the French law family has the most negative coefficients (ranging from -1.352 to -0.421), suggesting that employment practices in these countries are significantly less tough than in the UK. They are followed by the countries of German law (-0.518 to 0.363) and Scandinavian law (-0.564 to 0.306). However, there are also several countries that do not fit well with the La Porta et al. thesis. In detail, Germany and Sweden have HRM practices that are more stringent in this area than those of the UK. However, this finding also reveals that coordinated market economies are not necessarily as inflexible as their detractors would have us believe: legal traditions do not preclude temporary or bounded departures from a broad national trajectory (Harcourt and Wood 2003; c.f. Djankov et al. 2003).

Ireland has a significantly negative coefficient meaning it is very different from the UK and Finland is not different from the UK given the insignificant coefficient. Again, this would reflect the extent to which countries may temporarily depart from specific trajectories; however, it is also worth noting that Ireland has a proportional electoral system. Finland underwent painful adjustments in the early 1990s, the effects of which lingered to the close of that decade; meanwhile Ireland, at the same time, through a series of national social accords, departed significantly from its previously overtly liberal market trajectory. Hence, our results from regression (1) provide only limited support for La Porta et al.: we find a number of countries that follow HRM practices that are difficult to reconcile with their thesis.

The VOC theory fits even less well. Although the constant is positive and highly significant, suggesting that the UK has weaker employment protection, Germany and Sweden have a significant country dummy. Hence, there is some (weak) evidence that some countries may have tougher HRM practices than the UK. Further, the order of the countries in terms of the magnitude of their dummy does not follow the predictions of dichotomous VOC theories. According to these theories, Austria, France and Germany should offer high employment protection and should therefore have the most negative coefficients; in practice Austria and Germany behave very differently from France.

Moving onto Panel C with the political and legal variables, regression (2) with the legal family dummies suggests that countries with French law have significantly less stringent employment practices than countries of English law (the base case), as well as those of Scandinavian and German law. Further, the English law dummy which is included in regression (3) is positive and significant, suggesting that companies from these countries are more likely to engage in more stringent employment practices compared to countries from French, German and Scandinavian law. Hence, this provides support for La Porta et al.'s thesis. In contrast, there is little support for the VOC theories as the coefficient on the LME dummy variable in regression (4) is not significant. Regressions (5) and (6) contain one of the two politics indices, i.e. MYRL and RILE, respectively. The coefficient on MYRL, the political orientation of the government in terms of ten different market regulation and wealth distribution issues, is not significantly different from zero. Conversely, the coefficient on RILE, which measures the government's views on a wide range of social and economic issues, is positive and highly significant, suggesting that companies from countries with more conservative governments are more likely to engage in more stringent HRM practices. Regression (7) contains Pagano and Volpin's (2005) proportionality index. The coefficient on the index is negative and significant at the 1% level. In line with Pagano and Volpin, firms from countries where more seats are allocated via the proportionality index are less likely to have stringent employment practices. Regressions (8) and (9) contain the dummies for the legal families, the proportionality index and one of the two politics indices. The Scandinavian law dummy is significant but positive which is counter to La Porta et al. as it suggests that firms from this region engage in more stringent employment practices than the base case, i.e. English law firms. Nevertheless, taking into account the results from the regressions (2) and (3) there is some support for La Porta et al.

Finally, apart from the industry dummy for personal services (IND10), which is significant in eight of the nine regressions, none of the other industry dummies is significantly different from zero in a majority of regressions.[xi] This result appears to contradict predictions that industry specific rules and norms will partially mould firm behaviour (c.f. Boyer and Hollingsworth 1997).

To sum up, the results so far suggest that existing theories are difficult to reconcile with actual employment practices. For example, La Porta et al.'s theory that legal families explain the way investors and employees are treated receives little support from our data. The VOC theories fare even

worse as the LME dummy is not significant. Further, during the period examined Germany, a CME, uses harsher ways of downsizing its workforce than the UK. The theories that do comparatively well are the one based on the political orientation of the party in power (Roe 2003) and even more so that based on the proportionality of the electoral system (Pagano and Volpin 2005).

4.1 Cross country and cross industry differences in the case of takeovers

There is some evidence from Panel A that firms that have been recently involved in mergers and acquisitions have more stringent employment policies. However, as employment adjustment costs are lower in common-law countries and hence employment levels are less likely to deviate substantially from their minimum optimal levels, M&As should be less likely to have a major impact on the workers of these countries. As a result, common-law countries and/ or right-wing countries are less likely to show a negative effect of M&As on employment compared to civil-law and/ or left-wing countries.

Conversely, according to the VOC theories, the effect of M&As in LMEs should have a more far-reaching effect on employment than in CMEs. In LMEs, mergers and consolidations may facilitate further cost-cutting and/ or promote the diffusion of groundbreaking technologies. Low security of tenure and a lack of attention to firm specific skills promote the mobility of labour between sectors, away from mature to emerging areas of activity. High levels of managerial autonomy (and constrained delegation to employees) facilitate dramatic organizational restructuring and/ or downsizing. In summary, within CMEs, a focus on stakeholder interests is associated with both firm level practices and a wider governance regime. Within LMEs, certain firm level employment practices are complementary to an emphasis on shareholder value and a wider political framework.

In summary, the juridico-political theories and the VOC literature suggest that mergers may have differential effects across countries. In addition, regulationist theory argues that there are sub- and supra-national pressures that may call for corporate restructuring within certain industries and across national borders. Hence, as a robustness test we re-run the regressions in Table 4 including interactive terms between the country dummies and the merger dummy (Panel D) as well as interactive terms between the industry dummies and the merger dummy (not reported in the table)[xii].

The results (see regressions (10) and (11) in Table 4) are as follows. Only a few countries (Austria, Belgium, France and Greece) have significant interactive merger terms (see Panel D). All of the significant coefficients are negative, suggesting that companies involved in acquisitions from these countries have less harsh employment practices than companies from the same countries that are not involved in acquisitions. What conclusions can we draw from these significant merger country dummies? First, the results contradict the dominant dichotomous VOC theories (e.g. Dore, 2000; Hall and Soskice, 2001), or indeed, multi-variety accounts, such as Whitley (1999), that define LMEs as a single category, and which place ‘Scandinavian’ and ‘Rhineland’ types of economy in a single

'collaborative' category. Second, the results are also not in line with the juridico-political theories that predict significantly positive merger country dummies for the civil law countries. The coefficients on the interaction between the merger dummies on one side and the industry groups of non-energy chemicals (IND3), metal manufacture (IND4), other manufacturing (IND5), building and civil engineering (IND6), transport & communication (IND8), banking & finance (IND9) and personal services (IND10), on the other side, are all significant and positive. All of these industries are likely to have a higher exposure to international competition than the other industries with insignificant coefficients. Hence, the significantly positive merger coefficients for these industries provide support for the regulationist theories which argue that the supra-national context is also likely to have an impact on employment policies.

Finally, the reason why we find that some countries – Germany, Ireland, Sweden and also Finland – do not conform to the La Porta et al. (1998) classification may be due to the fact that our regressions are based on a single cross-section. To check the robustness of our results, we run a regression similar to regression (1) based on a more recent Cranet survey, the 2003/4 survey.[xiii] We find even more outliers than for the 1999 survey. In particular, Germany, Sweden and Finland have more stringent HRM practices than the UK; however, again, there are specific reasons why this may be so. Finally, Australia and New Zealand, both countries with English law, have the least stringent employment practices across all the countries.[xiv]

5. DISCUSSION

5.1 Summary

This paper analyses differences in the willingness of firms to engage in downsizing in sixteen Western European countries as well as Israel and investigates how well these practices fit in with the predictions of the different theories. Although there is now a sizeable body of the academic literature that tries to explain cross-country differences in terms of corporate control, capital market development, investor protection and politics, there is as yet very little literature on the degrees of protection accorded to other corporate stakeholders such as employees. This paper tries to provide some insights into this important topic.

Our evidence is drawn from a cross-sectional analysis, concerns one specific, if crucial, employment practice – shedding staff – and from one region. Further research, using longitudinal data, a wider range of employment practices and from a wider range of countries would provide valuable tests for our findings. Nevertheless, our findings have some important scholarly and practical implications.

5,2Theoretical Implications

In scholarly terms, there are considerable overlaps between the bases of many of the theories we test, while they share a lack of empirical firm-level testing. The comparative capitalisms literature can be

seen as an attempt at a meta-theory, encompassing and relating explanations with what might be seen as the constituent legal and political theories. Although the varieties of capitalism literature claims to be a firm centred analysis, and the leximetrics of La Porta and colleagues make strong predictions as to managerial choices according to institutional setting, both these strands of literature tend to draw on evidence external to the firm, based on stylized ideal types and macro-economic trends. In reality, testing these theories against one axis of their claimed application, the relationships within the firm, they are clearly lacking. In other words, contrary to conventional wisdom, we do not find a significant difference between the LME and CME or common/ civil law categorizations as a whole. In looking more closely within the civil law category we found some distinctiveness with regard to Scandinavian legal origin countries, but not on the general lines suggested by La Porta et al. (i.e. that Scandinavia is a diluted version of civil law, but with weaker owner rights than under common law). This would reflect the complexity of national institutional environments, and the possibility for compensatory (i.e stronger social for weaker employment protection) rather than mutually supportive features. This would suggest the need for a more nuanced understanding as to the specific impact of institutional features on firm practices, than the notion of mutually supportive complementarities encountered in Hall and Soskice (2001), or La Porta et al.'s (2000) assumption that firm level practices can be traced back to a single institutional feature, i.e. property rights. Further research on the external relationships with, for example, governments, other firms and suppliers is overdue and may provide better support. In the meantime, it seems apparent that some aspects of the varieties of capitalism, such as political systems, carry more weight than others and if that is true then the categorizations of the varieties may need further examination. Amable (2003) and Amable and Palombarini (2009) have begun to explore this possibility, bringing to bear a greater range of comparative evidence than either Hall and Soskice on the one hand, or La Porta and colleagues on the other hand, and recognizing that national systems rarely are internally coherent in corporate governance. However, once more the focus of this work is primarily in terms of evidence external to the firm. Further empirical testing of such theories against empirical firm-level data needs to increase. This is a challenge to those working in the field, but databases are available or can be created.

Our analysis finds firm-level behaviour somewhat at odds with both legal origin and varieties of capitalism approaches. This is a particularly surprising finding given other work using the same dataset (see, for example, Brewster et al. 2007; Goergen et al. 2012) finds that in other areas of HRM practice, such as relative employee voice, and propensity to invest in people, variations in conduct are more in line with the predictions of the latter. What the results primarily point to is the relative importance of electoral systems and the policies of the party in power at a particular time. Whilst it is relatively uncommon for countries to change their electoral systems, this can and does happen, as witness the cases of Italy and New Zealand. Moreover, even if electoral systems stay the same, it is possible that regional dynamics force coalitions – or at least, a dominant party moderating its policy to

conciliate a powerful region – to a greater extent in some first-past-the post systems than a simple analysis of constitutional law might suggest. In contrast, core systemic features, such as legal origin, cannot be as easily changed and, as highlighted below, even if change occurs cultural attitudes may annul or to the very least reduce the potential benefits of such change.

It is evident that some practices, such as downsizing, may be in response to overwhelming external pressures to cut labour costs; not only do they reduce the costs of the firm, but they also provide a powerful signal to financial markets. In contrast, any financial benefits or costs of curtailing, say, voice mechanisms, may be less immediate or indirect. Again, many types of training, such as of the basic induction variety, particularly when national technical and vocational training is poor, cannot be readily dispensed with, without an immediate effect on operational effectiveness (Goergen et al. 2012). In short, downsizing represents an area where firms can more easily change work and employment relations, and where the immediate financial benefits, both in terms of reducing wage bills and attracting investors, can be felt. Redundancies may, of course, result in a long term cost to the firm in terms of staff morale and the "survivor syndrome", but it is possible for firms to engage in them, whilst retaining the basic features of their work and employment relations model in other areas. In short, it is precisely the type of practice that firms may resort to opportunistically when they perceive that they have a 'window of opportunity to do so'.

As Gourevitch and Shinn (2005: pp. 1-5) note, corporate governance reflects real policy choices, which reflect the outcome of on-going contestations between interest groupings. "Anything of importance will be fought over", with any existing settlement or order being subject to re-contestation. What firms do not only reflects law, but also variations in the ideological orientation and relative political will of the government in power.

However, national corporate governance systems are subject to regular changes, reflecting the fact that they "grow and stumble" at different times: periods of relative prosperity are followed by "great reversals" and reordering (Gourevitch and Shinn 2005: 6). .

More specifically, La Porta et al.'s thesis is subject to two major criticisms. First, the link between legal family and the extent of investor protection, central to La Porta et al.'s taxonomy, is contested. Graff (2008) disputes the definition of the investor protection index. He argues that not all of the criteria forming the index measure investor protection and that other criteria, which clearly measure investor protection, are omitted from the index. When the index is altered as suggested by Graff there is no longer a link between legal origin and degree of investor protection. Similarly, Spamann (2010) argues that the index suffers from encoding errors due to La Porta et al.'s use of secondary sources rather than the original law texts. After rectifying these errors, the link between the legal family and investor protection also disappears. Second, Licht et al. (2005) find that culture is much better at explaining investor protection than legal family. They argue that culture, which is difficult to change,

explains why the countries from the former Communist bloc failed to improve investor protection in practice despite substantial changes to their law. These criticisms may explain why overall we do not find that legal origin explains cross-country differences in employment practices. Milhaupt and Pistor (2008: p. 5) argue that legal origin approaches see the law ”as a kind of technology” that can simply be deployed to enhance property rights and hence, economic outcomes. Rather, relative property rights is only one of several ways in which the law can impact on firm behaviour and economic outcomes, the others being coordination of interest group bargaining, enhancing credibility and signalling. Again, the law is not politically neutral and, hence, is unlikely to produce similar results irrespective of setting (ibid.: 4-7). Indeed, in concentrating on the relative importance assigned to judge-made case law, Dam (2006: 9) argues that La Porta et al ignore the importance of specific items of statutory law in common law settings (e.g. corporate and bankruptcy legislation). This would also explain why relatively short term political fluctuations appear to have such an important effect. At the same time, this does not mean that the legal origins and varieties of capitalism approaches have no value. They alert us to important institutional differences that, when combined with other differences, such as politics (and inter alia sectoral contextual factors), undoubtedly impact on firm policies towards their people.

Does this make any attempt to identify, compare and contrast core institutional features of different types of capitalism unfeasible? There are three reasons why not. Firstly, if one confines one’s analysis to what goes on within the firm, it is clear that some work and employment relations practices are more easily changed than others and that some, such as dismissals, may yield immediate benefits, when compared to other areas, where the benefits may be indirect. Indeed, it can be argued that redundancies represent a bell-weather of changes in the external political economy (c.f. Streeck 2009). Secondly, whilst different national corporate governance systems vary in their relative performance at a specific time, there are long-term structural changes in the global economy and associated realm of ideas, which continue to be mediated through national institutions (Redman and Wilkinson 2006). This will mean that firms continue to reap relative competitive advantages through the retention of some practices, even if others are jettisoned or downgraded: for example, Germany retains a strong vocational training system, even if relative job security has become weaker than before. As Streeck (2009) notes, national institutions are reframed in an uneven and episodic manner, even if following a specific broad trajectory. Thirdly, national economies are diverse; broad national survey evidence takes account of a wide cross-section

of firms, many of which differ considerably from those that are commonly considered archetypical of particular settings (Wood and Lane 2012; Streeck 2009). At the same time, understanding and comparing those differences that are relatively durable between particularly large and successful firms in specific national contexts remains an important endeavour, even if the results should be qualified through a recognition of the bounded nature of internal systemic diversity (Wood and Lane 2012).

5.3 Implications for Practice

A wide body of theoretical literature on complementarity (Wood and Lane 2012) and, again, applied literature on HRM strategies in practice (Gennard and Judge 2005; Sparrow and Hiltrop 1997), suggests that certain sets of practice when encountered together work better than if they were encountered individually. Yet, it is apparent that in a number of more coordinated market economies, a large body of firms are departing from what is seen as a core feature of this model, stronger employment security, even if evidence from elsewhere (Brewster et al. 2007) would suggest that others, such as stronger employee voice, are retained. What does this mean for practice? Firstly, whilst making redundancies will yield immediate savings, it is possible that they will also bring with them long-term costs that may not be immediately visible and may be indirect, such as undermining long-term cooperative relations surrounding the process of production or undermining the organization's accumulated cognitive capabilities (Aoki 2012). Secondly, national economies are more diverse than an analysis flowing from assumptions of distinct national archetypes might suggest. The research, for example, reveals important differences on sectoral lines that might reflect the relative international exposure of different sectors, and the extent that the relative competitiveness of some sectors are more dependent on cooperative work and employment relations than others. What this would suggest is that HRM policies and practices are not necessarily readily interchangeable between countries and sectors, and that important structural reasons might underlie any differences encountered. For example, in Germany, whilst weaker job security may work for many smaller firms, it may be rather more dysfunctional when applied to large incrementally innovative manufacturing firms (c.f. Streeck 2009). Again, in countries where enforcement mechanisms are uneven or inefficient, larger firms are more likely to be subject to regulatory scrutiny than their smaller counterparts. In short, whilst firms can and do innovate, in some cases challenging or undermining existing norms, the opportunities for innovation may be greater in some sectors

than others. Finally, given that corporate governance is intrinsically political, this might suggest that insider firms will have a greater capacity to innovate than those with weaker political linkages.

Where does this leave MNCs? On the one hand, new entrants in particular may have weaker influence than local firms whose fortunes are closely bound up with those of indigenous political elites. On the other hand, the size and scale of MNCs may vest them with considerably more clout than smaller and less well resourced local firms, and may be less dependent on the goodwill of a single government. Indeed, we find MNCs are somewhat more likely to make use of redundancies.

From this, there are a number of practical issues both managers and policy makers need to consider. Firstly, although MNCs appear more willing to lay off staff and, indeed, may pioneer the dissemination of such harder HRM policies in more cooperative settings, downsizing may have intangible costs, which may only be visible further down the road; indigenous firms may have a more nuanced understanding of the latter, rather than simply being hidebound, clinging on to the conventions of the past. Secondly, there is no specific model of best practice that has universal validity: in facing greater pressures towards liberalization, policy makers need to take careful stock of the benefits of the status quo. Again, managers of smaller firms might consider the extent to which their larger counterparts grew on account of, rather than despite, deeper or stronger commitments to people. Thirdly, given the importance of political dynamics on firm practice highlighted by this study, there is little doubt that there is a need for a better understanding of the capabilities and impact of regional structures of power on what firms do, especially in nations with high levels of devolution.

6. CONCLUSION

The findings of this study challenge some of the assumptions of two particularly influential bodies of comparative institutional theory, the varieties of capitalism approach, and the legal origin theory. Both these models would suggest relatively strong path dependence. In looking at the relative proclivity of firms to make redundancies, we found that some more stakeholder orientated contexts were closer in line with those commonly encountered in the liberal market/ common law family. This would reflect the extent to which redundancies represent a bellwether policy: unlike many HRM interventions, their usage yields immediate cost

savings, whilst the costs are less immediately visible and longer term. As such, their usage may be particularly sensitive to changes in the political context. Gourevitch and Shinn (2005) argue that corporate governance is intrinsically political, and what firms do will reflect the outcome of political contestations. It is seems likely that some choices by firms are particularly likely to be determined by the political mood, such as the relative propensity to make use of compulsory redundancies; earlier studies based on the Cranet data revealed stronger institutional explanatory effects in looking at variations in other areas of people management, such as employee voice mechanisms (Brewster et al. 2007). It can also be argued that from the 1980s onwards, right wing governments have been more likely to implement policies that favour some sectors (financial services) and investor categories (short termist financial intermediaries), over others (traditional manufacturing) and longer term orientated investors, which in turn, may result in significant job cuts in traditional areas of the economy (see Engelen et al. 2009). Not only are national corporate governance systems thus more dynamic than often assumed, they are also internally diverse, with firms in some sectors more likely to follow certain HRM practices than those in others. This would suggest that, whilst HRM practices are not readily substitutable across sectors, firms can and do innovate in some areas, whilst retaining very different practices in others.

We also encounter many important and persistent national differences: global firms cannot assume that the world is ‘flattening’, that a global HRM paradigm is emerging, and that practices can be interchanged between contexts. Nonetheless, whilst HRM strategies may be mutually supportive, the capacity and willingness of firms to adopt seemingly contradictory practices in different areas and locales should not be underestimated. Clearly, there is room for ‘norm entrepreneurs’ (Sunstein 1996); indeed, there is some evidence to suggest MNCs may be playing such a role, demonstrating a greater willingness to take hard measures to reduce workforce size in the face of external pressures.

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Table 1: Alternative Accounts of the National Setting on Employment Relations

Perspective	Hierarchical/ Juridico-political theories	Political Science Approaches	Varieties of capitalism
Conception of institutions	Hierarchical: institutions provide incentives on actors and associations, helping them to make optimal decisions, or constraining them from doing so. Optimal outcomes are contingent on strong rights for owners and shareholders.	Political traditions and dynamics result in owners or workers attaining relative power over the other.	Institutions are providers of complementarities. More than one set of complementarities is possible: i.e. different varieties of capitalism may work equally well, regardless of variations in the manner in which owner interests are protected.
Traditions	Juridico-political	Political determinants of corporate governance.	Dichotomous models (e.g. Hall and Soskice, Dore). Multi-variety models (e.g. Whitley, Amable)
Employment relations consequences	Reflect national legal traditions and/or political ideologies. Employer/ employee rights are dichotomous: if one is strong, the other is likely to be weak.	Under right wing political environments, the rights of worker will be weaker and more precarious and owners stronger. The converse is true under social democratic arrangements.	Contingent on specific variety of capitalism. Employer/employee rights are not necessarily dichotomous; however, as a general rule employer rights are stronger and employee rights weaker in liberal markets; the converse is true for more coordinated markets.
Level variations encountered at	National level/ category of country	National political level.	Level of national economy (although more recent literature has introduced the possibility of regional and sectoral effects)
Predictions	Civil-law countries, left-wing countries and/ or countries with a proportional voting system are more likely to be prone to rent-seeking behaviour by employees. Country dummies for civil-law countries are predicted to be negative.	The country level dummies for right wing/conservative governments are predicted to be positive. Radical downsizing is more likely to take place in such settings.	Radical downsizing is more likely to occur in LMEs. The country dummies for the LMEs are predicted to be positive.

Table 2: Definitions of the variables

Variable		Definition
PRACTICE		This ordinal variable measures employment practices used by individual firms over the last three years (source: 1999/2000 Cranet survey). It takes on a value of: 0 if there are no restrictive employment practices and the number of employees has increased; 1 if there are no restrictive employment practices, but number of employees has remained the same; 2 if there is a recruitment freeze; 3 if there is redeployment; 4 if there are voluntary redundancies; 5 if there are early retirements; 6 if there are no renewals of fixed/temporary contracts; 7 if there is outsourcing or outplacement, and 8 if there are compulsory redundancies.
log(*SIZE*)		The logarithm of total size of the organization measured by the number of employees (source: 1999/2000 Cranet survey).
BLUE%		The firm's number of blue-collar workers as a percentage of its total workforce (source: 1999/2000 Cranet survey).
CHANGE		The absolute value of the change in the number of employees and measures the magnitude of the change (source: 1999/2000 Cranet survey).
MARKET1, *MARKET2*, and MARKET3		Dummy variables which are set to one, if the firm's market has been growing, has been stagnant or declining, respectively, over the last three years (source: 1999/2000 Cranet survey).
AGE		The firm's age in years in 1999/2000 (source: 1999/2000 Cranet survey).
PROFIT		An ordinal variable which can take on the values of 1(large losses), 2 (insufficient earnings to cover costs), 3 (break even), 4 (small profit), and 5 (large profit) (source: 1999/2000 Cranet survey).
POLITICS	*MYRL*	Ranges from −100 (extreme left) to +100 (extreme right), is a variable which measures the political orientation of the party in power in terms of its views on ten different market regulation and wealth distribution issues. Not available for Israel.
	RILE	Ranges from −100 (extreme left) to +100 (extreme right), measures the political orientation of the party in power based on its views on a wide range of social and economic issues. Not available for Israel.
PROPORTIONALITY INDEX		Pagano and Volpin's proportionality index. The index ranges from 0 if no seats are assigned proportionally to 3 if 100% of seats are assigned proportionally). It is based on an average over 1986-1990 of data obtained from the World Bank Database of Political Institutions. Not available for Israel.
ENGLISH LAW		Dummy variable which is equal to 1, if the firm is from a country with English law (based on La Porta et al. 1998).
GERMAN LAW		Dummy variable which is equal to 1, if the firm is from a country with German law (based on La Porta et al. 1998).
FRENCH LAW		Dummy variable which is equal to 1, if the firm is from a country with French law (based on La Porta et al. 1998).
SCANDINAVIAN LAW		Dummy variable which is equal to 1, if the firm is from a country with Scandinavian law (based on La Porta et al. 1998).
LME		Dummy variable which is equal to 1, if the firm is from Ireland or the UK, both liberal market economies (LMEs).
SUBSINT		Dummy variable which is equal to 1, if the firm is a subsidiary of a foreign company (source: 1999/2000 Cranet survey).
$COUNTRY_j$		Dummy variable which is set to 1, if the firm is from country *j*, and 0 otherwise.
MERGER		Dummy variable which equals 1 if the firm has been involved in a merger or acquisition over the last 3 years (source: 1999/2000 Cranet survey).
IND_k		Dummy variable which is set to 1, if the firm belongs to industry group *k*. The 17 different industry groups are listed under Panel B of Table 3 (source: 1999/2000 Cranet survey).

MERG_X	Interaction term between the *MERGER* dummy variable and each of the *COUNTRY* dummy variables.
MERG_INDY	Interaction term between the *MERGER* dummy variable and each of the industry dummies.

Table 3: Descriptive statistics

MERGER is a dummy variable which is set to one if the firm has been involved in a merger or takeover (either as a target or bidder) within the last three years. SIZE is the total size of the organization measured by the number of employees. *BLUE% is the firm's number of blue-collar workers as a percentage of its total workforce. MARKET1, MARKET2 and MARKET3 are dummy variables which are set to one, if the firm's market has been growing, has been stagnant or declining, respectively, over the last three years. AGE is the firm's age in years in 2000. PROFIT is an ordinal variable which measures the profitability of a firm's over the past three years. It can take on the values of 1(large losses), 2 (insufficient earnings to cover costs), 3 (break even), 4 (small profit), and 5 (large profit). MYRL, which ranges from −100 (extreme left) to +100 (extreme right), is a variable which measures the political orientation of the party in power in terms of its views on ten different market regulation and wealth distribution issues. RILE, which ranges from −100 (extreme left) to +100 (extreme right), measures the political orientation of the party in power based on its views on a wide range of social and economic issues. SUBSINT is a dummy variable which equals one if the firm is a subsidiary of a foreign company, and zero otherwise.*

Panel A: Descriptive statistics

Variable	**Mean**	**Median**	**Standard Deviation**	**Minimum**	**Maximum**	**Cases**
MERGER	0.12	–	–	0.00	1.00	3872
SIZE	3,548	400	116,394	3	7,100,000	3767
BLUE%	47.79	55.00	29.10	0.00	99.00	3872
CHANGE	16.28	10.00	20.70	0.00	100.00	3536
MARKET1	0.50	–	–	0.00	1.00	3872
MARKET2	0.34	–	–	0.00	1.00	3872
MARKET3	0.13	–	–	0.00	1.00	3872
AGE	57.15	42.00	51.43	1.00	640.00	3373
PROFIT	4.30	5.00	1.05	1.00	6.00	3872
SUBSINT	0.41	–	–	0.00	1.00	3258
MYRL	-4.36	0.00	35.29	-63.19	64.57	3867
RILE	1.77	1.95	22.23	-47.36	47.48	3867
PROPORTIONALITY INDEX	2.01	2.00	1.13	0.00	1.00	3872
GERMAN LAW	0.22	–	–	–	–	3872
FRENCH LAW	0.31	–	–	–	–	3872
SCANDINAVIAN LAW	0.21	–	–	–	–	3872
ENGLISH LAW	0.26	–	–	–	–	3872

Table 3 cont'd

Panel B: Industry distribution

Industry group	Percentage
Agriculture, hunting, forestry, fishing (IND1)	1.3
Energy and water (IND2)	2.4
Non-energy chemicals (IND3)	6.0
Metal manufacture (IND4)	24.5
Other manufacturing (IND5)	20.2
Building and civil engineering (IND6)	5.7
Distributive trades (IND7)	9.3
Transport & communication (IND8)	5.0
Banking & finance (IND9)	9.9
Personal services (IND10)	1.0
Health services (IND11)	1.8
Other services (IND12)	2.9
Education (IND13)	0.5
Local government (IND14)	0.1
Central government (IND15)	0.1
Other (IND16)	9.2
Other public (IND17)	0.0

Panel C: Distribution across countries

Country	Percentage (Number)
Austria	4.0 (156)
Belgium	6.1 (235)
Denmark	8.0 (311)
Finland	3.7 (142)
France	9.0 (349)
Germany	14.6 (567)
Greece	2.7 (106)
Ireland	7.6 (294)
Italy	1.9 (72)
Netherlands	2.5 (95)
Norway	4.6 (179)
Portugal	3.2 (123)
Spain	5.9 (229)
Sweden	4.9 (189)
Switzerland	3.2 (123)
UK	18.1 (701)

Table 4: Ordered probit regressions

The dependent variable, PRACTICE, takes on a value of: 0 if there have been no restrictive employment practices and the number of employees has increased over the last three years; 1 if there have been no restrictive employment practices and the number of employees has not changed over the last three year; 2 if there has been a recruitment freeze; 3 if there has been redeployment; 4 if there have been voluntary redundancies; 5 if there have been early retirements; 6 if there has been no renewal of fixed/temporary contracts; 7 if there has been outsourcing; and 8 if there have been compulsory redundancies. The explanatory variables are defined in Table 2. The numbers in parentheses are the p-values for the Z-tests.

										Robustness tests	
Variable	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**
Panel A: Control variables											
Constant	3.142	2.570	2.399	2.450	2.449	2.488	2.418	2.663	2.547	3.420	3.420
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
LOG(SIZE)	0.083	0.138	0.112	0.108	0.109	0.111	0.111	0.131	0.127	0.089	0.089
	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
BLUE%	-0.004	-0.003	-0.003	-0.003	-0.003	-0.002	-0.003	-0.003	-0.002	-0.005	-0.005
	(0.000)	(0.003)	(0.002)	(0.001)	(0.001)	(0.012)	(0.002)	(0.008)	(0.024)	(0.000)	(0.000)
CHANGE	-0.099	-0.087	-0.088	-0.091	-0.090	-0.087	-0.118	-0.113	-0.114	-0.102	-0.102
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
MARKET2	0.192	0.159	0.118	0.110	0.113	0.118	0.179	0.195	0.181	0.220	0.220
	(0.000)	(0.002)	(0.018)	(0.027)	(0.024)	(0.018)	(0.001)	(0.000)	(0.001)	(0.000)	(0.000)
MARKET3	0.390	0.394	0.426	0.418	0.421	0.410	0.490	0.440	0.429	0.387	0.387
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
AGE	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001	0.001
	(0.004)	(0.063)	(0.124)	(0.127)	(0.104)	(0.165)	(0.029)	(0.018)	(0.045)	(0.003)	(0.003)
PROFIT	-0.163	-0.174	-0.166	-0.164	-0.164	-0.172	-0.152	-0.158	-0.158	-0.175	-0.175
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
SUBSINT	0.100	0.006	-0.044	-0.035	-0.029	-0.021	0.006	0.057	0.038	0.109	0.109
	(0.041)	(0.893)	(0.355)	(0.465)	(0.542)	(0.651)	(0.903)	(0.269)	(0.455)	(0.032)	(0.032)
MERGER	0.137	0.151	0.122	0.117	0.120	0.130	0.082	0.122	0.100	-0.932	-0.932
	(0.062)	(0.038)	(0.089)	(0.104)	(0.096)	(0.071)	(0.294)	(0.109)	(0.204)	(0.163)	(0.163)

Table 4 continued

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Panel B: Country dummies											
BELGIUM	-0.628 (0.000)	–	–	–	–	–	–	–	–	-1.138 (0.005)	-0.706 (0.000)
FRANCE	-1.352 (0.000)	–	–	–	–	–	–	–	–	-0.789 (0.035)	-1.692 (0.000)
GREECE	-0.472 (0.002)	–	–	–	–	–	–	–	–	-0.217 (0.249)	-0.747 (0.023)
ITALY	-0.689 (0.000)	–	–	–	–	–	–	–	–	-1.244 (0.001)	-0.540 (0.018)
NETHERLANDS	-0.614 (0.000)	–	–	–	–	–	–	–	–	-0.312 (0.215)	-1.079 (0.005)
PORTUGAL	-0.625 (0.000)	–	–	–	–	–	–	–	–	-0.830 (0.000)	-1.050 (0.001)
SPAIN	-0.421 (0.000)	–	–	–	–	–	–	–	–	-1.148 (0.017)	-0.320 (0.041)
AUSTRIA	-0.325 (0.012)	–	–	–	–	–	–	–	–	-0.358 (0.018)	0.002 (0.995)
GERMANY	0.363 (0.003)	–	–	–	–	–	–	–	–	0.008 (0.974)	0.257 (0.051)
SWITZERLAND	-0.518 (0.001)	–	–	–	–	–	–	–	–	-0.965 (0.001)	-0.262 (0.372)
DENMARK	-0.362 (0.000)	–	–	–	–	–	–	–	–	-0.484 (0.000)	-0.364 (0.000)
FINLAND	-0.016 (0.889)	–	–	–	–	–	–	–	–	0.439 (0.169)	-0.072 (0.618)
NORWAY	-0.564 (0.000)	–	–	–	–	–	–	–	–	-0.111 (0.731)	-0.688 (0.000)
SWEDEN	0.306 (0.010)	–	–	–	–	–	–	–	–	0.538 (0.022)	0.122 (0.432)
IRELAND	-0.782 (0.000)	–	–	–	–	–	–	–	–	-0.972 (0.000)	-0.759 (0.000)
ISRAEL	0.412 (0.004)	–	–	–	–	–	–	–	–	0.351 (0.030)	0.351 (0.030)

Table 4 continued

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Panel C: Political and legal variables											
ENGLISH LAW	–	–	0.123 (0.015)	–	–	–	–	–	–	–	–
FRENCH LAW	–	-0.594 (0.000)	–	–	–	–	–	-0.316 (0.000)	-0.288 (0.000)	–	–
SCANDINAVIAN LAW	–	-0.035 (0.564)	–	–	–	–	–	0.574 (0.000)	0.323 (0.000)	–	–
GERMAN LAW	–	0.083 (0.307)	–	–	–	–	–	0.326 (0.001)	0.312 (0.001)	–	–
LME	–	–	–	0.026 (0.620)	–	–	–	–	–	–	–
MYRL	–	–	–	–	0.001 (0.150)	–	–	0.005 (0.000)	–	0.009 (0.149)	–
RILE	–	–	–	–	–	0.007 (0.000)	–	–	0.002 (0.129)	–	-0.009 (0.149)
PROPORTIONALITY INDEX	–	–	–	–	–	–	-0.067 (0.001)	-0.177 (0.000)	-0.108 (0.000)	–	–

Table 4 continued

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Panel D: Country merger dummies											
MERG_A	–	–	–	–	–	–	–	–	–	-1.055 (0.011)	-1.055 (0.011)
MERG_B	–	–	–	–	–	–	–	–	–	-0.868 (0.010)	-0.868 (0.010)
MERG_CH	–	–	–	–	–	–	–	–	–	0.533 (0.349)	0.533 (0.349)
MERG_D	–	–	–	–	–	–	–	–	–	0.864 (0.225)	0.864 (0.225)
MERG_DK	–	–	–	–	–	–	–	–	–	-0.014 (0.974)	-0.014 (0.974)
MERG_E	–	–	–	–	–	–	–	–	–	0.090 (0.784)	0.090 (0.784)
MERG_F	–	–	–	–	–	–	–	–	–	-0.720 (0.012)	-0.720 (0.012)
MERG_FIN	–	–	–	–	–	–	–	–	–	-0.427 (0.193)	-0.427 (0.193)
MERG_GB	–	–	–	–	–	–	–	–	–	-1.256 (0.007)	-1.256 (0.007)
MERG_GR	–	–	–	–	–	–	–	–	–	0.213 (0.683)	0.213 (0.683)
MERG_I	–	–	–	–	–	–	–	–	–	-0.488 (0.255)	-0.488 (0.255)
MERG_IRL	–	–	–	–	–	–	–	–	–	-0.317 (0.319)	-0.317 (0.319)
MERG_N	–	–	–	–	–	–	–	–	–	-0.505 (0.172)	-0.505 (0.172)
MERG_NL	–	–	–	–	–	–	–	–	–	-0.375 (0.390)	-0.375 (0.390)
MERG_P	–	–	–	–	–	–	–	–	–	-0.204 (0.742)	-0.204 (0.742)
MERG_S	–	–	–	–	–	–	–	–	–	0.150 (0.724)	0.150 (0.724)

Table 4 continued

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Panel E: Threshold parameters											
μ_1	0.972	0.936	0.908	0.907	0.908	0.913	0.975	1.007	1.002	0.980	0.980
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
μ_2	1.869	1.778	1.722	1.722	1.725	1.736	1.827	1.894	1.876	1.899	1.899
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
μ_3	1.940	1.844	1.786	1.786	1.789	1.801	1.869	1.937	1.919	1.970	1.970
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
μ_4	2.042	1.940	1.880	1.880	1.883	1.895	1.941	2.013	1.993	2.074	2.074
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
μ_5	2.219	2.104	2.041	2.041	2.044	2.058	2.111	2.188	2.166	2.248	2.248
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
μ_6	2.515	2.383	2.313	2.313	2.317	2.332	2.390	2.477	2.452	2.540	2.540
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
μ_7	2.869	2.722	2.640	2.639	2.643	2.661	2.702	2.805	2.778	2.873	2.873
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
McFadden pseudo-R-squared	0.0651	0.0402	0.0249	0.0242	0.0244	0.0288	0.0316	0.0523	0.0476	0.0732	0.0732
Number of observations	2441	2441	2441	2441	2441	2441	2060	2060	2060	2366	2366

[i] This covers constitutionally or quasi-constitutionally entrenched sharing of power between key interest groupings in society. Most consociational democracies centre on the sharing of power between different ethnic and linguistic groupings (e.g. Belgium).

[ii] We excluded countries from Eastern Europe and Turkey as these countries were going through major legal and regulatory changes.

[iii] The threshold parameters need to be positive in order to ensure that all the probabilities are positive.

[iv] we experimented with alternative econometric techniques, which revealed the same broad results. A copy of these may be obtained from the authors

[v] We do not have data to control for family ownership. However, Roe (2003) argues that concentrated (family) ownership emerges under left-wing governments to mitigate the worker-friendly policies of the latter. In other words, we interpret Roe (2003) as implying that both family ownership and more lenient HRM policies are outcomes under left-wing governments rather than institutions that may exist alongside them. Further, as the majority of our data sample consists of organizations that are not listed on a stock market, ownership is likely to be highly concentrated across countries.

[vi] Neither index is available for Israel.

[vii] The results are available upon request from the authors.

[viii] Interestingly, when interacting the percentage of manual workers with the merger dummy, the coefficient on the interaction term is not significantly different from zero. Hence, contrary to Lichtenberg and Siegel (1992), we do not find that firms with more white-collar workers are more likely to reduce employment around mergers.

[ix] To confirm whether our conclusion is valid, we also ran a simple OLS regression explaining the range of HRM practices used (defined as the difference between the worst employment practice and the best employment practice used based on the classification underlying the dependent variable in the probit regressions) by the absolute value of the percentage change in the workforce (CHANGE). The coefficient on CHANGE was positive and significant at the 0.1% level.

[x] Suits (1957) shows that there are two ways of dealing with the inclusion of class membership, such as countries or regions, in regressions. One way is to include N-1 class dummies as we have done in our analysis, i.e. to drop one of the dummies to avoid perfect multicollinearity and hence to avoid for the estimation to fail. The other way is to drop the intercept in the regression, but to include all N class membership dummies. As Suits (1957) writes, the two versions of the regression will result in identical estimates of the dependent variables as the two versions only differ in terms of the constraints they impose on the regression parameters. In other words, the parameter estimates obtained from one version of the regression can be used to derive those of the other version. More specifically, in the first version of the regression the class membership dummies included in the regression measure the differential effect of each of the N-1 classes relative to the reference class. In contrast, in the second version of the regression each dummy measures the actual impact of each region on the dependent variable. As a robustness check (not reported in the paper), we ran the ordered probit including all four legal family dummies, i.e. English, French, German and Scandinavian law (this model does not have a constant). The only of the four dummies that was significant was the negative French law dummy. This was the case irrespective of whether the model had a constant term or not and irrespective of whether the model included the English law dummy.

[xi] As stated above, these coefficients are not reported in the table, but the relevant figures are available from the authors upon request.

[xii] The figures are available from the authors upon request.

[xiii] Excluding the transitional and Eastern European countries, this survey includes a slightly different list of countries encompassing most, but not all of the countries from the 1999 survey. The 19 countries included in the 2003/4 survey are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Israel, Italy, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland and the USA.

[xiv] It was not possible to run regressions equivalent to regressions (3) to (7) in Table 3 for the 2003/4 survey as the two politics indices are not yet available for the years 2003-2004 for most countries.

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