

Article

Unconstrained Capital? Multinational companies, structural power, and collective goods provision in dual VET

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Abstract

Collective goods provision, most prominent in coordinated market economies, depends on certain institutional conditions that constrain employer behavior and trigger cooperation. Increased capital mobility, characterized by new exit opportunities for business and an influx of multinational companies not anchored in their new home-countries' institutional environment, loosens those 'beneficial constraints'. I argue that these challenges do not lead to convergence between globalized locations as the structural power of business depends on the type of firms attracted by local institutional comparative advantages. Comparing collective skill formation in two heavily globalized cantons of Switzerland, I show that a region fundamentally relying on low-tax policies sees its hands increasingly tied in the face of globalization. It must accordingly reshape collective goods provision around policies favored by business. In contrast, a location with more diverse comparative advantages is able to implement more compelling policy elements that punish uncooperative firms.

Key words: globalization, multinational firms, political economy, power, training, state

JEL classification: H41 Public goods, J24 human capital, J24 human capital, skills, occupational choice, P16 political economy

1. Introduction

Globalization has been one of the most controversial topics in comparative political economy (CPE), often said to contribute to the erosion or transformation of institutions providing collective goods. Collective goods provision is especially predominant in coordinated market economies (CMEs) (Hall and Soskice, 2001), where manifold private and public actors cooperate in the provision of research networks, wage restraint through collective bargaining, social peace, patient capital or specialized but transferable skills through

collective vocational education and training (dual VET) (Streeck, 1992; Thelen, 1994).¹ Due to coordination problems and uncertainties about future long-term benefits, markets struggle to sufficiently supply such goods. Rational-choice as well as historical institutionalism highlights that cooperation in the provision of collective goods is not self-sustaining and depends on specific institutional conditions, i.e. formal regulations and informal norms. Following Streeck (1997a), such cooperation in the provision of economically beneficial collective goods can be the result of institutions that constrain employer behavior (beneficial constraints). However, influential accounts have argued that globalization loosens these constraining institutions, making cooperation rather voluntary (Streeck, 1997b, 2009; Whitford *et al.*, 2018). Increased capital mobility potentially leads to increased exit capacities by business (emphasized by CPE) in addition to an influx of multinational companies (MNCs)² that are often not anchored in the institutional environment of their new host countries (emphasized by International Human Resource Management, IHRM).

Combining CPE and IHRM accounts, I examine how globalization affects the provision of collective goods. Collective skill formation is a prime example of collective goods provision as employers, their associations and the state cooperate in order to provide dual VET via school- and firm-based learning (Busemeyer and Trampusch, 2012). I observe how actors in the governance of dual VET react to problems of increased globalization and loosened beneficial constraints and try to trigger training³ participation of MNCs. I find that reactions vary significantly between different locations and are therefore not consistent with theoretical expectations that suggest an overall movement toward nonconstraining policies.

My outcome of interest is not the training participation of MNCs, but variation in the design of policies with which a variety of actors try to trigger such participation. Drawing on Billett and Smith (2003), I distinguish between ‘compelling’ VET policies that punish MNCs that do not train (resembling beneficial constraints) and ‘encouraging’ VET policies that aim to generate purely voluntary firm commitment. Explaining such variation, I incorporate and build upon the structural power literature. Consequently, the leeway available for tackling the challenges of MNCs depends on the structural power of business, which captures employer exit capacity from an economy. I argue that this structural power varies according to the type of firms attracted by the specific (institutional) comparative advantages of a respective location. Inspired by accounts like Hirschman (1980) and Iversen and Soskice (2019), such characteristics of globalized locations can enable public authorities to exercise power over business. Comparing two heavily globalized cantons within Switzerland, I argue that locations relying on low-tax policy as the main comparative advantage attract the most cost-sensitive and mobile firms; conversely, they find their policy options for sustaining the provision of collective skill formation significantly limited, thereby

- 1 It has been shown that collective goods provision also exists in liberal market economies (Lange, 2009; Sorge and Rothe, 2011), but dual VET is indeed most prominent in a subset of CMEs.
- 2 I speak of MNCs as an umbrella term for all companies with at least one subsidiary outside their home country. I refer to ‘foreign MNCs’ as companies controlled by a multinational group head residing outside the respective host-country under focus (BFS, 2017a). I do not make a more fine-grained distinction between multiple types of MNCs, ranging from ‘multidomestic’ to ‘transnational’ (cf. Harzing, 2000).
- 3 I use the term ‘training’ for training within the formal and binding regulations of dual VET, i.e. training as collective goods provision as described in detail in Section 4.

having to opt for encouraging VET policies. In contrast, in locations with more diverse comparative advantages, business exit is less likely, allowing for more compelling dual VET policies toward MNCs.

2. Globalization and beneficial constraints

For a long time, globalization was one of the most controversial topics in political economy. The original varieties of capitalism (VoC) approach highlighted stability of collective goods provision, where supportive institutions emerge out voluntary agreement by participating parties that recognize them as economically beneficial (Hall and Soskice, 2001). In CPE, challengers like Korpi (2006) and Streeck (1997a) emphasized that employer cooperation in many cases depends on the constraining nature of institutions resulting from a variety and interplay of factors like ‘cultural traditions, of a historically grown status structure, of prevailing concepts of social justice and legitimate stratification, and not least of the distribution of power in the polity and the workplace’ (Streeck, 2004, p. 428 on dual VET). As collective goods cannot be safely and permanently appropriated by an individual firm, cost–benefit calculations are subject to substantial uncertainty. Consequently, employers should favor short-term economic interests over long-term investments in collective goods. Cooperation arises only via ‘beneficial constraints’, either ‘based in formal law or in a common culture’ (Streeck, 1997a, p. 217).

For the specialized but transferable occupational skills of dual VET, the central constraints identified are that firms are captive in a location with high wages, egalitarian wage setting, employment security (Streeck, 2004; Sorge and Streeck, 2018) and an environment where the ‘[c]ontinuous monitoring of one’s short-term balance of economic advantage is not a social norm, encouraging long-term orientations and commitments’, like investments in training (Streeck, 1997b, p. 243). This can ‘contribute to [economic] performance by transforming the preferences of actors [...], teaching them what they *really* want is something else’,—namely training (Streeck, 1997a, p. 199). According to CPE, globalization loosens these constraints as employers are not captive and are increasingly able to exit or credibly threaten to exit the respective arrangement if they no longer regard it to be in their best interest (Lauder *et al.*, 2008; Whitford *et al.*, 2018).

Certain approaches in IHRM also emphasize change in the face of globalization, where we can see an influx of MNCs from foreign home countries. Due to the path-dependency of firm preferences, MNCs have certain common preferences that are not consistent with their domestic counterparts. *Home-country effects* (Harzing and Sorge, 2003; Almond, 2011; Edwards *et al.*, 2013) show that the institutional environment of an MNC’s home country shapes its subsidiaries’ behavior—for example, through management ideology, corporate control (Zhu and Robert, 2017) and pressures for standardization across subsidiaries (Edwards and Ferner, 2002). Home-country effects are reinforced if the MNCs’ country-of-origin is shaped by a ‘contemporarily dominant business system’, like the USA (Ferner *et al.*, 2013; Edwards *et al.*, 2016). Consequently, MNCs can be partially disembedded from the institutional environment of their subsidiaries new *host*-countries and the respective ‘social, cultural, political and cognitive structuration of decisions in economic contexts’ (Beckert, 2003, p. 769). Cooperation in collective goods provision may be either unknown or incompatible with the cultural or managerial conventions of many MNCs’ LME-type home-countries, like shareholder value approaches (Höpner, 2003; Edwards, 2004).

As of yet, it seems that institutional change and a loosening of beneficial constraints in the face of structural changes like globalization have emerged as a new conventional wisdom (Doellgast *et al.*, 2018). In the face of globalization, some see a convergence of CMEs toward a ‘common neoliberal trajectory’ (Baccaro and Howell, 2011, 2017) with increased business power, while others emphasize alternative reform paths. As highlighted by Emmenegger *et al.* (2012), ‘structural pressures do not directly translate into policy change’, opening alternatives to outright liberalization. At a national level, some accounts argue that one such alternative lies in the dualization of economies, i.e. increasing divisions between labor market insiders that are still subject to generous institutional arrangements concerning welfare and labor market policies and uncovered outsiders (Rueda, 2005; Palier and Thelen, 2010). Thelen (2014) makes the dominance of manufacturing unions *vis-à-vis* weak public and service sector unions responsible for a development towards dualization in continental Europe instead of a more socially inclusive ‘embedded flexibilization’ (flexicurity) of Nordic countries, where the state replaces employer coordination in the provision of collective goods. Scholars of industrial relations view such trajectories different to outright liberalization from a sectoral perspective, identifying for example strong unions and work councils as constraining conditions leading to (at least preliminary) employer cooperation in certain sectors (Benassi, 2016; Benassi *et al.*, 2016). Most recently, Iversen and Soskice (2019) look at these developments from a regional perspective. However, they push further back on the decisive importance of structural changes and especially globalization. In their account, liberalization consequently is only ‘a political choice, not a matter of the structural power of capital to exit’, as capital is allegedly dependent on ‘largely immobile, highly educated workers’ in skill clusters of advanced capitalist economies.

I argue that they go one step too far. I try to reconcile the importance of the challenges of globalization like increased capital mobility (CPE) and foreign MNCs (IHRM) with the possibility of continuing collective goods provision in CMEs via institutions constraining employers. I draw upon the modern structural power of business literature and combine it with accounts including economic geography, regional studies, international business and IHRM to explain how international and partially disembedded capital, namely foreign MNCs, can still be constrained in certain locations to provide collective goods (dual VET). In contrast to Iversen and Soskice (2019), the varying comparative advantages across locations lead to different exit capacities of business and therefore different power dynamics between MNCs and public authorities across these different regions.

3. Comparative advantages and the structural power of business

Structural power, as first introduced by Lindblom (1977), captures the structurally privileged position of firms as providers of economic well-being in capitalist economies, with the state and labor having to appease business in order to prevent disinvestment. I depart from the original understanding of structural power as a constant and follow CPE accounts, such as the highly influential work of Hacker and Pierson (2002, p. 282), that allow structural power to vary⁴:

4 For an overview of this strand of literature, see Culpepper (2015).

First, the structural power of business is a variable, not a constant. If influence depends on fear of disinvestment, then it will vary depending on how credible policy makers believe that threat to be. One major aspect of this credibility is the ease of moving investment to another political jurisdiction, and thus firms with highly immobile assets will be less capable of exercising structural power.

Consequently, it is true that structural power results from the ‘core economic activity’ (Culpepper and Reinke, 2014, p. 396) of the firm in capitalist economies, which is inherent in all market economies. However, the successful exercise of structural power depends on business’ exit capacity as perceived by the relevant decision-makers and thereby varies, for example between different kinds of firms with different degrees of mobility. Structural power is often said to work indirectly, automatically pushing policy-makers toward alternatives favored by business (Hacker and Pierson, 2002). Certain policies may be disregarded early as economically infeasible, they might be perceived to trigger the relocation of firms to other locations (Fairfield, 2015a). Structural power can also be mobilized directly through the articulation of a credible punishment option (Culpepper and Reinke, 2014).

Many pessimistic accounts on globalization have the same shortcomings as classical structural power literature which conceptualizes structural power as constant instead of variable (Culpepper, 2015). Instead of a race to the bottom due to a proposed inability to constrain multinational capital in a globalized world, I argue that policy-makers’ leeway in creating or preserving more compelling means of collective good provision varies between regions with different institutional comparative advantages that attract MNCs with different degrees of mobility and ultimately lead to a varying structural power of business in those locations. The literature on international business and IHRM, regional studies, economic geography and, more recently, CPE highlights that firms within different industries are attracted by different (institutional) comparative advantages.

Regional studies highlight that ‘local institutions cause a certain form of sectoral production’ and that this ‘embarks clusters on a search for regulation that is optimal for their sectoral needs’ (Schröder and Voelzkow, 2016, pp. 11–12). These (regional) comparative advantages can also be quite different from the overall national variety of capitalism (Crouch *et al.*, 2009). But most importantly, these (multinational) firm clusters that are attracted by different kinds of comparative advantages also vary with regard to their mobility. Sorge and Rothe (2011) show how specific regional comparative advantages—including knowledge-producing institutions like universities, logistical accessibility, quality of life and a ‘cosmopolitan-milieu’—attract highly globalized and innovative firms with ‘no short-term acquisition or closure of facilities’ (p. 54). Iversen and Soskice (2019) make the point that the colocation of highly educated (and immobile) workforces with skills ‘cospecific both with each other and with company technologies’ (p. 7) and reinforced by a concentration of transport systems, private services (cultural offerings, restaurants, etc.), public services and social networks in these locations leads to clusters of relatively immobile, knowledge-based MNCs of similar industries. However, they de-emphasize that certain industries might favor other comparative advantages (low costs) and/or have fundamentally greater leeway in internationally sourcing skills (Brown *et al.*, 2011), therefore being substantially more ‘foot-loose’ and inhibiting greater structural power.

In other words, Iversen and Soskice (2019) focus on one of the two opposite scenarios, namely Vogel’s (1997) California scenario in environmental regulation where economic

Table 1. Dynamics of varying structural power in globalized economies

Location with low taxation as main comparative advantage	Yes	No
Dependence on most mobile segment of MNCs	High	Low
Structural power of business	High	Low
Power relations on the side of/power mobilizable ^a by	Business	Public authorities

^aWith the wording ‘mobilizable’, I follow [Culpepper and Reinke \(2014\)](#) who conceptualize power as being exercisable either directly (deliberately) as well as indirectly (automatically).

globalization does not necessarily lead to a race to the bottom: ‘For all but a *handful* of industries, the costs of compliance with stricter regulatory standards have not been sufficient to force relatively affluent nations or sub-national governments to choose between competitiveness and environmental protection [i.e. stricter regulation]’ (p. 559, emphasis added). That argument, while not made explicit in Vogel’s account, depends on the type of industries dominant in a certain location. The type of industry dominant, as shown above, is again a result of the specific comparative advantages of that location. Does the respective location only attract a ‘handful of industries’ that can credibly threaten to exit, or is it a main destination of *most* mobile companies?

Rethinking the early work of [Hirschman \(1980\)](#) in terms of power relations between business and the state, I argue that a location can exercise power over business and consequently MNCs if it keeps the share of *most* mobile companies that can credibly threaten to exit its economy at a ‘minimum compatible with [...] [its] economic well-being’ (p. 31). As shown in the left column of [Table 1](#), when a location’s comparative advantages mostly attract the segment of MNCs that are especially cost-sensitive and highly mobile, these firms become of overwhelming importance for the respective economy. This sole dependence on most mobile firms provides business with structural power. Even a small increase in employers’ costs may then be perceived as a possible trigger of employer exit by policymakers. Low tax-policy as a main comparative advantage therefore leads to spillover effects to other policy fields, limiting the respective location’s policy-alternatives to measures favored by business.

In contrast, locations that do not solely depend on tax policy as their main comparative advantage and therefore attract MNCs with lower degrees of mobility have more leeway and can incorporate more compelling policy solutions. There, employer exit cannot be expected solely due to an (modest) increase in costs. In other words, how globalization affects the local institutional environment varies with the structural power of business in a respective location, which results from the specific comparative advantages upon which certain locations rely on and the MNCs they consequently attract. Consequently, globalization is not inextricably connected to a rise in business power as it does not necessarily lead to a change to more voluntary, non-constraining institutions.

4. The case of dual VET in Switzerland

The specific collective good I examine is collective skill formation ([Estevez-Abe et al., 2001](#); [Hall and Soskice, 2001](#); [Johansen, 2002](#); [Busemeyer, 2009](#)). In collective skill formation

systems, prominent in Austria, Denmark, Germany, the Netherlands and Switzerland, employers and their associations as well as the state (and partly labor unions) are collectively involved in the provision, financing, administration, standardization and reform of dual VET (Busemeyer and Trampusch, 2012). They lead to occupational skills that are standardized, certified, recognized in national labor markets and therefore portable between firms. With a significant amount of the population opting for secondary-level VET, it increasingly acts as a route to tertiary education (higher VET or university). Dual training is characterized by collective goods properties (Olson, 1971; Hart and Cowhey, 1977). First, firms cannot be forced to participate, but at the same time, cannot be excluded from its manifold benefits (*non-excludability*). Second, its payoffs cannot be safely and permanently appropriated, due to the possible poaching of former apprentices (Streeck, 1992). All this leads to an under-provision of dual VET by markets alone.

In CPE, a rich literature analyses the dynamics of collective skill formation systems (Thelen, 2004; Busemeyer and Thelen, 2012; Graf, 2017; Emmenegger and Seitzl, 2019). A focus on employer preferences as an explanatory variable for change in dual VET has biased the literature toward companies that have an active interest in shaping collective skill formation systems and already know the system. It omits the possible influence of foreign MNCs, and consequently globalization and the reaction of regional actors to those challenges altogether, such topics are usually just mentioned as a side note (Culpepper, 2007; Trampusch, 2010). Also in connected fields like IHRM or industrial relations, only isolated accounts have hinted at the influence of MNCs on traditional collective skill formation systems (Lauder *et al.*, 2008; Almond *et al.*, 2014). Rather, manifold studies focus on the *deliberate* transfer of practices by MNCs, for example the transfer of dual VET by MNCs from countries with established collective skill formation systems to new, often liberal host countries (e.g. Hancké, 2012; Fortwengel and Jackson, 2016). The inverse angle, where companies that do not know a specific institutional environment may unintentionally contribute to its decay, has not been sufficiently researched. IHRM explains MNC strategies and the challenges *faced by MNCs* due to these effects (Heidenreich, 2012). The literature highlights ‘host-country effects’ that, for example, push MNCs to conform to local practices as well as the abovementioned ‘home-country effects’ that work in the opposing direction (for an overview, see Heyes and Rainbird, 2010). My study tackles the underexplored issue of if and how local authorities can implement and design policies that lead to host-country effects that trigger training participation, therefore dealing with possible challenges *resulting from MNCs’ home-country effects*.

I tackle those issues within the setting of Switzerland. This allows me to compare two most-similar locations that vary with regard to their comparative advantages and the types of firms they attract, since business taxation, which can constitute an important element of a location’s comparative advantage, varies substantially between Swiss cantons. I consequently compare two Swiss cantons with high exposure to globalization, Zug and Zürich. Overall, MNCs contribute 18 (Zug) and 21% (Zürich) to the respective cantonal GDP, generating around 14–16% of employment in both cantons, mostly in the service sector (BFS, 2017a; Naville *et al.*, 2012). However, their tax policy and consequently comparative advantages differ greatly, attracting different kinds of (multinational) companies, leading to different power relations between business and cantonal authorities. These comparative advantages vary between my cases, but are fixed and cannot be changed in the short to medium-term, so policy-makers have to cope with these specific comparative advantages. In

the next section, I show how both cantons vary with regard to their (institutional) comparative advantages and the respective types of firms with different degrees of mobility they attract, while being similar with regard to other possible explanatory factors.

Thereafter, I show that the leeway available for VET policies depends on the structural power of business in a location and therefore MNCs' mobility and exit capacity. I apply process tracing (Beach and Pedersen, 2013) to trace the mechanism that pushed Zug towards a different policy solution to include MNCs in collective skill formation than Zürich, and control for other factors not accounted for in my comparative research design. As MNCs do not have an active interest in shaping VET policy due to home-country effects, the main mechanism traced here is the *automatic* reaction of policymakers triggered by the structural power of business, visible through observable implications like the perceptions of policymakers. These 'serve as an important empirical trace of structural power', as 'in most cases it [structural power] cannot directly be observed' (Fairfield, 2015b, p. 418). In order to capture these empirical traces of my causal mechanism, 14 semi-structured expert interviews were conducted face-to-face and over phone. Interviewees have (or had) main functions in the regional governance of dual VET and promote VET among firms in the respective cantons. This includes individuals in cantonal VET offices and departments responsible for labor market affairs, (cantonal) intermediary associations and host company networks. Interview data are triangulated with newspaper articles and official documents of the above-mentioned organizations.

4.1 Two kinds of globalization

While the economic profile of both cantons is shaped by MNCs, leading to common challenges of MNC integration, the mobility of these MNCs differs due to the different comparative advantages of the cantons. Zug is famous for its low tax policy. It has one of the lowest regular corporate tax rates in international comparison, ranking better (12%) in the BAK Taxation Index 2017 than not only Zürich (17.5%), but also Dublin or Singapore (BAK Economics AG, 2018). Taxation is even lower in Zug for holdings as well as 'mixed companies' that predominantly yield profits outside Switzerland, making Zug an especially attractive location for the headquarters of MNCs (Hürzeler *et al.*, 2014). Due to this tax profile, it is also a leading location for international trading companies worldwide, mostly in the fields of commodity or pharmaceutical trade (Kanton Zug, 2014; BFS, 2017e). In Zug, nearly 50% of direct federal tax income originates from the abovementioned special tax status companies (Schweizer Eidgenossenschaft, 2015). Wholesale trading companies and those with controlling and headquarter functions are among the top three branches measured in employment (BFS, 2017e). Central is that those firms are very tax sensitive and, consequently, highly mobile. Out of all Swiss cantons, Zug's companies are the most mobile, relocating on average after eight years (CBRE Switzerland, 2018).

In contrast to Zug's low tax strategy, Zürich's comparative advantages are more diverse. While corporate taxes are still low in Zürich by international comparison, they are much higher than in Zug, and special tax privileges are mostly absent (Hürzeler *et al.*, 2014). The canton cannot directly compete with Zug on taxes alone. Instead, Zürich embodies many factors regarded in the literature as essential in attracting knowledge-based multinationals (Sorge and Rothe, 2011; Iversen and Soskice, 2019). Its attractiveness for MNCs results from its (comparatively) better infrastructure and transport connection, an urban and cosmopolitan environment for its workforce including cultural, recreational and social

activities, a more central location and proximity to ETH (*Eidgenössische Technische Hochschule Zürich*), a top research facility, and the possibility to locate firms in neighborhoods with direct access to Zürich airport. Concerning the importance of knowledge and technology intensive branches, Zürich is leading among Swiss cantons,⁵ while Zug only scores around the Swiss average (Schnell, 2015). MNCs that choose Zürich are less tax-sensitive than their counterparts in Zug. Firm-mobility in Zürich is much lower, with companies relocating on average every 12 years, comparable to the Swiss average (CBRE Switzerland, 2018). Zürich's lower dependence on the most tax-responsive kind of MNCs is also visible in its share of direct federal tax income originating from special tax status companies, which only accounts for roughly 10% (Schweizer Eidgenossenschaft, 2015). Both headquarter firms and wholesale trading are of lower importance in Zürich (BFS, 2017e).

Apart from these different comparative advantages, many alternative explanatory factors are constant across these cases. All cantons in Switzerland are subject to federal-level regulations concerning VET (Gonon and Maurer, 2012), making the leeway both cantons have within the general system of VET governance identical. Zug and Zürich are most similar concerning the importance of VET in secondary level education, both being slightly above the Swiss average of 65% (BFS, 2017b). Ninety-four percent of these individuals in initial VET in Zürich and 96% in Zug undertake an apprenticeship (BFS, 2017d). In both cantons, commercial training is by far the most popular occupation within initial VET, accounting for roughly 16% of all individuals in initial VET (BFS, 2017c), and informatics is ranked among the five most popular initial VET programs in both cantons.

Thirty percent of MNCs in Zug and Zürich originate in either the USA or UK (BFS, 2017a), in addition to many other MNCs from home countries without developed (dual) VET systems, which helps to keep home-country effects constant. However, one difference between the cantons could be that MNCs in Zürich are possibly more inclined toward dual training, as Zug's comparative advantages could attract MNCs with lower preferences for dual VET ('strategic sorting', see Sorge and Rothe, 2011; Sorge et al., 2015). Wilkinson et al. (2001) present a case where cost-advantages attract subsidiaries specializing in low-value-added activities with low training investments. While it is certainly true that Zug and Zürich attract different kinds of firms with regard to high and low-value-added activities, my outcome of interest is first and foremost not the engagement of MNCs in dual training, but the varying VET policies of cantonal authorities designed to push these firms toward dual training. It is not clear how differences in firms concerning value-creation and the specialization in international division of labor within an MNC, should determine public authority choices as to whether or not they implement compelling VET policies—except when these factors work through firm mobility and the structural power mechanism I propose. Furthermore, both Zug and Zürich are characterized by high exposure to foreign MNCs with preferences detrimental to dual training as evidenced by my interviews.

For example, issues concerning foreign managers, HR divisions and their lack of understanding and knowledge about the Swiss VET system (e.g. the high level of skills it provides) and preference for academic education were highlighted by *all* interview partners in *both* cantons, by cantonal officials in the media and in official documents. Interviewees in both cantons perceived that MNCs miss the 'firm culture' and social ideals necessary for dual training. MNCs' management ideologies rather seem to propagate to increase short-term

5 Most telling is that Google's largest location outside the USA is located in Zürich (Steier, 2016).

profits to distribute them to shareholders: ‘It is a huge effort to explain the purpose, the sustainability, the long-term logic, the utility of VET to managers from overseas with their short-term, quarter-based shareholder-thinking’ (CH5, also CH6). Instead (academically educated), professionals are often imported from abroad—also connected to the low quality of VET in many MNCs’ home-countries (Muehleemann and Wolter, 2013; CH1, CH2, CH3, CH4, CH6). Additionally, MNCs often conduct internal communication in English. This decreases the attractiveness of Swiss VET apprentices who often do not attend language classes (Oertli, 2016; CH5, CH6).

Consequently, my interviews confirm that in *both* Zug and Zürich, MNCs’ home-country effects concerning dual VET are present. In both cantons, this triggered a reaction from cantonal authorities which saw the potential to include these MNCs in dual VET—even in Zug where we see substantially more firms with headquarter functions. In Zug, to ‘pick up the new community’ and sustain the system in the face of continued globalization became increasingly important during the 2000s (CH2, CH3, CH4). In Zürich, a shortage of apprenticeship places in the field of commercial training first brought MNCs onto agenda in that decade (CH6, CH7). But more recently, policy-makers in both cantons have expressed concern that MNCs heavily utilize scarce skilled labor, but do not contribute to its supply, instead importing skilled labor from abroad (Muehleemann and Wolter, 2013; DeVore, 2015; CH1, CH2, CH3, CH4, CH6, CH11). With contingents for non-EU labor limited *per canton*, and anti-immigration sentiments on the rise, *both* cantons had strong incentives to convince MNCs regarding dual VET in the face of a perceived skill shortage. As my structural power argument predicts, this rather similar challenge of globalization leads to different policies in Zürich than in Zug,⁶ as visible in the next section.

4.2 VET policy-making and the fear of business’ exit

I argue that policy-makers in Zürich, being aware that MNCs in their canton are less tax-sensitive, have more leeway in implementing compelling policy solutions that are costly for business. In contrast, the high dependence of Zug on especially mobile, tax-sensitive MNCs provides them with structural power, which leads to an automatic reaction by policy-makers pushing them toward encouraging VET policies that are cheaper for business. Via additional VET programs built around what were perceived to be common needs of MNCs, Zug tried to create incentives for MNCs to train. In 2007, the cantonal VET office together with BildxZug, the lead organization of Zug’s training network,⁷ initiated VET programs with an increased English language component (CH3). In 2015, BildxZug and the VET office launched secondary level English-language dual apprenticeship programs in commercial training and informatics (*Berufsbildung International*). Respective intermediary associations involved in VET governance remained passive and only took a supportive role (CH2, CH3, CH5, CH13). In these programs, English is the main teaching language in all three learning locations, i.e. the host company, VET school and branch-training center (Strahm *et al.*, 2016). Further peculiarities concern language stays, a very selective recruitment process and supplementary English lessons. Thereby, public authorities sought to tackle the issue that

6 Practices to promote MNC integration, such as formal and informal information campaigns including promotional events or networking, were present in both cantons.

7 Training networks are mostly used to facilitate the integration of smaller or very specialized companies into dual VET by pooling their training resources (Leemann *et al.*, 2015).

MNCs often conduct their internal communications in English, trying to adapt training content to their specific needs.

MNCs train via Zug's training network, not independently. Apprentices complete their training as 'interns' in multiple member companies. Only the specifically dedicated lead organization BildxZug requires permission to train and hire apprentices, thus takes over recruiting and most legal and administrative tasks. Thereby, BildxZug reduces companies' training efforts and risks connected to apprenticeship dropout, in addition to bridging the language barrier between administrative VET bodies and MNCs (BildxZug, 2016). Shorter training periods and predictable costs via BildxZug establish compatibility between the long-term pay-offs of the local VET system and short-termist MNCs. BildxZug also allows subsidiaries to bypass headcount targets, as foreign MNCs often do not register 'interns' in headcount calculations (CH3, CH5). MNCs pay for these services, which is cheaper than setting up fully-fledged apprenticeship divisions for only a few apprentices (CH3, CH5). However, the cantonal government subsidizes BildxZug via annual contributions and loans, partly shifting the financial burden of training from companies to the canton (Kanton Zug, 2009; 2015; CH14).

Consequently, Zug adapts to MNC-needs concerning learning content as well as administration, training provision and financing. VET is a 'constant sell from door to door' (*'Türklinken putzen'*, CH2) for cantonal authorities, not a process of coercion. While all interviewed actors responsible for the program regard it as a success, its functioning remains volatile and dependent on financial support by the cantonal government (CH5, CH4). Due to cantonal cost-cutting measures and a lack of apprenticeship applicants, certain aspects of the project were cancelled for the 2018 cohort. Even in the face of such decisive challenges, due to the structural power of business in Zug, policy-makers could not incorporate compelling solutions to mitigate those financial cutbacks. Asked specifically about the possibility of putting pressure on MNCs to join dual VET, interview partners clearly negated and emphasized the importance of constant personal contact, networking and advertising (CH3, CH14). Similarly, an interviewee (CH5) laughingly replied

One can only try to explain to those people [from MNCs] what we are doing here [with VET]. And one can only try to explain to [...] the multinationals, that maybe Switzerland works a little bit different than the rest of the world. And one can try to explain to [...] the multinationals what the aspects [of dual VET] are. To create an understanding. And that works sometimes better, sometimes worse. But to take the step, to demand something - forget it!

When asked why demanding something from MNCs is not possible, the interviewee instantly responded

Then they do not come, period. That is always this tax competition within Switzerland in the last years [...]. To relocate a company, in the canton of Schaffhausen – many companies came to Schaffhausen, profited 5 years from concessionary terms, and after 5 years, when the regular taxation would have kicked in, which is already low, they were already gone. Back to Ireland. Or back to Nyon. Or back to Geneva. These are facts. But you cannot read these facts, because nobody admits it.

Another interviewee also explicitly ruled out any compelling measures of MNC inclusion, arguing, 'Zug, essentially, does not work via pressure' (CH14). Consequently, making VET more attractive (and cheaper) for those companies was the only possibility: 'I don't have a choice [...], as a project here, we have to find a way to cope with those circumstances [...]. Or leave it be' (CH5). For my argument, it does not matter if MNCs would really relocate if

Table 2. Power mobilization in Zug and Zürich

Location	Zug	Zürich
Power relations on the side of	Business	Cantonal authorities
Mode of power mobilization ^a	Indirectly via automatic reactions of policy-makers to possible business exit	Directly via open threats and legislation
Policy outcome	Encouraging, aimed at voluntary participation	Compelling, costly for business

al do not make any claims of causality concerning the determinants of those different modes of power mobilization.

certain demands were raised. Important is that the relevant policymakers perceive it that way, and therefore do not consider more compelling policy options *vis-à-vis* encouraging ones. Encouraging legislation in Zug cannot simply be reduced to partisan politics, all parties in Zug were in favor of the Berufsbildung International project, even the left (CH2, CH3, CH5, CH14). In the same vein, in the more left-leaning canton of Geneva and the more right-wing Schaffhausen, both similar to Zug in terms of their globalized economy and taxation of mixed companies and holdings (Kaegi and Morlok, 2014), similar non-compelling policies to integrate MNCs (i.e. English-language dual VET programs) were introduced or under construction (CH2, CH5, Dienststelle Mittelschul- und Berufsbildung Schaffhausen, 2015; Josserand, 2017). This hints at a similar and central role of structural power in other low-tax locations. To sum up, as visible in the left column of Table 2, due to the intense structural power of business as a consequence of Zug’s comparative advantages, decision-makers took preventive action to incorporate encouraging VET policies, adapting the respective VET system around the apparent needs of MNCs to trigger voluntary participation.

In contrast, as visible in the right column, Zürich has more diverse comparative advantages and a consequently lower share of highly mobile MNCs, shifting power relations to public authorities. Being aware that MNCs in their canton are less tax-sensitive, authorities are not constantly forced to keep business’ costs low and can follow compelling options for MNC inclusion into VET. As one interview partner argued, Zürich wants to attract ‘creative, innovative companies that are willing to pay something for it [the location]. [...] That is how we have argued thus far. You pay a higher price for something that is also better’ (CH8).

For example, Zürich introduced a cantonal VET fund in 2008 (Wettstein, 2008). All companies that do not train have to contribute 0.001% of their total wage bill.⁸ The fund puts dual VET on the agenda of all companies coming to Zürich (CH6, CH7). Some stakeholders regard the fund to be a relevant factor facilitating MNC inclusion in Zürich’s VET system and ‘alleviating the situation’ (CH7, Minder, 2016). But even if companies decide to refrain from training, the collected funds reduce costs for training companies and help to sustain dual VET (Wettstein, 2008; CH6, CH7, CH10). In public discussions concerning Zürich’s VET fund, capital mobility and Zürich’s attractiveness as a business location did

8 Exempt from contributions are companies with a wage bill of below 250 000 Swiss francs as well as those that already pay into a mandatory branch-wide VET fund (Kanton Zürich Bildungsdirektion, 2017). Such funds exist only in more domestically oriented branches (SBFI, 2018).

not play a major role. This is visible in the coverage by the newspapers *NZZ*, *Tagesanzeiger* and *Blick*, in which the cantonal VET fund was never linked to issues like tax competition or decreasing locational advantages.⁹ One interviewee argued, ‘that [the VET fund] is just part of this package. You are simply willing to pay a little bit more for a good location’ (CH8). In contrast, in the heavily globalized, low-tax canton of Schaffhausen, a similar fund was clearly rejected in a public referendum¹⁰ (*‘Umstritten ist nur der Berufsbildungsfond’*, 2008). In Zug, such a policy alternative did not even make it onto the agenda.

In the field of ICT occupations, the respective employer association and the department of economic affairs in Zürich (AWA) cooperated, resulting in compelling policies that facilitated MNC integration into VET. MNCs rely on non-EU labor for these occupations, allegedly exacerbated by a skill shortage within Switzerland. Immigration of non-EU labor is subject to cantonal contingents set by the federal government, but allocated to companies by cantonal authorities. A heated discussion emerged between MNCs perceived to disproportionately demand access to non-EU labor contingents and unwilling to train, and authorities limited by tight immigration quotas of the federal government and an electorate with an increasingly anti-immigration attitude. Even in 2011, the peak-level ICT intermediary associations argued that ‘the foreign companies that are active in Switzerland, namely also American ones, that do not know our dual VET system, are a particular problem’ (Andreas Kaelin of ICT Berufsbildung Schweiz qtd. in *Zaugg, 2011*). Subsequently, the association and the AWA developed a plan to couple non-EU labor contingents to certain socioeconomic obligations (CH10). In late 2015, the AWA began to reject the applications of companies that were not in the ‘macroeconomic interest’ of the canton (*‘Weniger Spezialisten aus Asien und Amerika: Google ist kein Einzelfall’*, 2015). In early 2016, Rudolf Noser, president of the peak-level ICT employer association, politician from the business-friendly liberal party (FDP) and member of the Swiss council of states from Zürich, further clarified (*AWA Zürich, 2016*, p. 10)

Foreign labor is essential in order to cope with the growth of the ICT sector. However, employers also have a responsibility towards our skilled, domestic workers. I make a plea for giving contingents for non-EU labor only to companies that contribute to vocational education and training, in other words, that train apprentices, and are able to prove a mixed age structure of their workforce. Our association is working on a corresponding certificate.

This certificate, to be awarded by the employer association ICT Switzerland, should have helped the AWA to identify companies that train, thereby gaining privileged access to non-EU labor contingents. From a legal point of view, non-EU labor contingents are distributed to companies under the premise of ‘ensuring macroeconomic interests’ and, according to the AWA’s statement, ‘training activities and mixed age structures in companies contribute to ensuring macroeconomic interests’ (*AWA Zürich, 2016*, p. 11). Following this rather open

9 In the respective newspaper archives, a keyword search for the term «Berufsbildungsfond» (VET fund) over a period of one year prior to the public referendum resulted in 83 articles, none containing the abovementioned arguments.

10 The low tax canton Geneva has a VET fund (Wettstein and *Gonon, 2009*, p. 231), but firm-mobility and therefore structural power of business was much lower when it was introduced in the late 1980s. Contributions tend to be lower too, as companies pay a lump-sum of below 30 CHF per employee per year (cf. *EA, 2012*, p. 11).

threat in addition to consequent roundtable discussions and years of (also public) critique, for example Google's Swiss location started to train within the conventional Swiss VET system—more than 10 years after opening its subsidiary in Zürich (Hosp, 2017; CH9, CH11). Other big MNCs like Accenture or Cognizant also promised to (re-)enter dual VET or increase their training participation in 2016 (ICT Berufsbildung Schweiz, 2016; inside-it.ch, 2016). From ICT Switzerland's viewpoint, the announcement of the certificate already showed a significant effect and implementation was no longer necessary (CH11).

I do not suggest that MNC participation is solely the result of abovementioned measures. The main point is rather that authorities in Zürich, due to the lower structural power of business in the canton, could make such demands without fear of a business exodus. My interviewee at ICT Switzerland clearly highlighted that they did not fear any negative consequences for the location resulting from the potential certificate: 'No, quite the contrary. The location is also dependent on a certain amount of political acceptance. If we accomplish participation within our [VET] system, also foreign labor will be increasingly accepted' (CH11). A similar compelling policy would not have been possible in Zug. These policy choices in Zürich cannot be explained by simple partisan politics. In the cantonal council, left-wing parties and Christian-democrats as well as (market-liberal) green-liberals approved the VET fund in 2007 (Keune, 2008). The right-wing Swiss People's Party (SVP) and FDP representatives dominating the cantonal government opposed their parliamentary groups and party bases and explicitly supported the fund ('Berufsbildungsfonds: Regierung ärgert die Gewerbler', 2008). Furthermore, the initiative to couple non-EU labor contingents to training participation originated out of ICT Switzerland and the AWA, both led by the business-friendly FDP.

Encouraging policies are weaker compared to Zug. Bilingual programs were introduced in 1999 out of a more pedagogical logic (Brohy and Gurtner, 2011; Miltschev, 2013). They only tackle the VET school component of an apprenticeship with up to three subjects taught partially (i.e. up to 75% of total class time) in English (Fleischmann, 2016; Zürich, 2012). Zürich is also home to a number of training networks. MNCs are part of them mostly in ICT training, but according to my interviewees, none of them is specifically targeted at MNCs. In contrast, these networks mostly provide services in the first year of the apprenticeship, which is common practice in ICT training across all types of companies (see also SDBB, 2014). According to my interviewees, those training networks are only subsidized, if at all, during their formation—often by the VET fund and consequently by companies that do not train (CH6). The tighter financial situation of Zürich cannot fully explain its choice for compelling instead of encouraging policies that are more costly. Compared to other Swiss cantons, Zürich's financial situation is quite solid (Grass *et al.*, 2012). Even Geneva, with a far worse financial situation, was nonetheless able to afford encouraging policies to include MNCs in VET (Josserand, 2017). More importantly, cantonal finances cannot explain why Zug does not implement nor even think about any additional compelling means to facilitate MNC integration. After all, the VET office in Zug experienced cost-cutting by cantonal government, making the integration of MNCs harder.

5. Conclusion

Globalization implies a significant challenge for coordinated capitalism in general and collective skill formation in particular. Beneficial constraints are loosened through an increasing

proportion of MNCs in CMEs. As suggested by IHRM literature and supported by interviews, MNCs are particularly hard to integrate in dual VET systems. However, the influx of MNCs does not necessarily lead to deterministic changes in the provision of collective goods. Due to the structural power of business in the canton of Zug, resulting from its low-tax policy as a main comparative advantage that attracts the most 'footloose', cost-sensitive and mobile firms, compelling policies to integrate MNCs are not an option. Rather, the local VET system has to be shaped around the apparent needs of those companies in order to trigger voluntary cooperation. In contrast, a location like Zürich with more diverse comparative advantages attracts less mobile MNCs, and business exit is less imminent here. Consequently, more compelling policies for collective goods provision can be implemented in the face of globalization.

What does this mean in terms of collective goods provision more generally? First, Zug had to opt for a very innovative and firm-friendly policy, but this encouraging policy also comes with drawbacks. It is more resource intensive. With the lack of any compelling policy instruments, the success of such solutions depends on a constant supply of financial resources from the cantonal government. In times of austerity, regional actors struggle to keep such non-compelling policies functioning. Furthermore, it also remains to be seen to what extent such a policy solution compromises the payoffs of the respective collective good for public actors, domestic firms or individuals. This concerns the overall uniformity of the VET system, its standardization, the portability of qualifications, but also the inclusiveness of VET, as only the most ambitious students have a perspective within Zug's international VET programs.¹¹ Second, in Zürich public authorities and the responsible employer association introduced new compelling VET policies to integrate MNCs. The involvement of the employer association could be seen as an instance of a VoC-type collective goods provision due to (domestic) employer-interest. However, it could also be seen as the implementation of new constraints by domestic employers' that are (in contrast to foreign MNCs) shaped by long-lasting constraining social norms in Switzerland that favor collective goods provision (*cf.* Streeck, 1997b). But, independent from which interpretation is chosen, it shows that policy-makers are not forced to rely exclusively on encouraging VET policies and can therefore integrate MNCs through more compelling means in times of globalization. Consequently, deterministic accounts that point towards in general increasing business power of highly mobile business *vis-à-vis* public actors have to be attenuated and cannot be generalized to all globalized economies. As the case of Zürich has shown, highly international locations still have a multitude of policy options available to cope with globalization, including policies more compelling to business. Nonetheless, we should not take the challenges of globalization lightly. A location might not be able to invest large amounts of time and resources to change its comparative advantages away from low-taxes, at least not in the medium-term. It is essential to recognize that once locations start to fundamentally rely on low-tax strategies to achieve foreign investment, they increasingly tie their hands in implementing more compelling and costly policies for collective goods provision *vis-a-vis* business.

Interviews

CH1-(24/11/2017): Interviewee from peak-level Swiss Employer's Association (SAV).

11 Busemeyer and Thelen (2012) coined the term 'segmentalism' for such developments in VET, which can also be seen as part of larger dualization tendencies in CMEs (Palier and Thelen, 2010).

CH2-(19/1/2018): Interviewee A involved in the governance of Zug's VET system.
 CH3-(9/3/2018): Interviewee B involved in the governance of Zug's VET system.
 CH4-(14/3/2018): Interviewee C involved in the governance of Zug's VET system (email).
 CH5-(26/3/2018): Interviewee C involved in the governance of Zug's VET system.
 CH6-(6/4/2018): Interviewee A from the VET office Zürich.
 CH7-(25/5/2018): Interviewee B from the VET office Zürich.
 CH8-(29/5/2018): Interviewee A from the department of economic affairs Zürich.
 CH9-(29/5/2018): Interviewee B from the department of economic affairs Zürich.
 CH10-(1/6/2018): Interviewee from cantonal ICT VET intermediary association.
 CH11-(2/7/2018): Interviewee from peak-level ICT VET intermediary association (telephone).
 CH12-(9/7/2018): Interviewee C from the department of economic affairs Zürich (telephone).
 CH13-(17/7/2018): Interviewee from peak-level commercial training intermediary association (telephone).
 CH14-(25/7/2018): Interviewee D involved in the governance of Zug's VET System (telephone).

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