MASTER'S THESIS

HOW FIRMS RESPOND TO INSTITUTIONAL DIFFERENCES

Antecedents and coping mechanisms for liberal and coordinated market economies

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ABSTRACT

This thesis sheds light on the question concerning how multinational corporations can successfully operate across borders despite institutional differences. The interaction between the institutional context of the home country and the development of organizational capabilities that lead towards a firm-specific advantage is emphasized. Varieties of Capitalism literature serves as a basis for the analysis of institutions and countries, due to its classification of Western economies into liberal and coordinated market economies. The modalities of the transfer of organizational capabilities and corresponding coping mechanisms are explored through a comparative case study. By selecting two firms based in Germany, thirteen interviews were conducted and findings are put in a framework that reveals three different types of coping mechanisms. General coping mechanisms are applied by multinational corporations irrespective of antecedents. Firms develop context-specific coping mechanisms for liberal and coordinated market economies. With the comparison of global and multinational strategies of firms, it was detected that firms with a high level of location-bound organizational capabilities are more likely to develop distinctive coping mechanisms than firms with a low level of location-bound organizational capabilities. The findings yield an important theoretical insight for MNCs and enrich the Varieties of Capitalism literature, institutional theory and academic works in organizational capabilities.

Keywords:

Institutions, Varieties of Capitalism, multinational corporations, organizational capabilities, location capability, global integration, local responsiveness, coping mechanisms, comparative case study

TABLE OF CONTENTS

LIST OF ABBREVIATIONS

ACE	Aircraft Engineering
ACS	Aircraft Component Service
CC	Comparative Capitalism
CCM	Context-specific Coping Mechanisms
CMEs	Coordinated Market Economies
DCM	Distinctive Coping Mechanisms
FDI	Foreign Direct Investment
FSA	Firm-Specific Advantage
GCM	General Coping Mechanisms
HQ	Headquarters
HR	Human Resources
IB	International Business
IT	Institutional Theory
KPI	Key Performance Indicator
LH	Lufthansa
LHT	Lufthansa Technik AG
LMEs	Liberal Market Economies
LSG	LSG Lufthansa Service Holding AG
MNCs	Multinational Corporations
MRO	Maintenance, Repair and Overhaul
OC	Organizational Capabilities
OFDI	Outward Foreign Direct Investment
PD	Product Division
SVP	Senior Vice President
UK	United Kingdom
USA	United States of America
VoC	Varieties of Capitalism
VP	Vice President

LIST OF FIGURES

LIST OF TABLES

1. INTRODUCTION

Business activities in a complex global environment reveal challenges for research and not enough attention has been paid to the institutional environment and its effect on international business activities (e.g. Jackson & Deeg, 2008a; Peng, Sun, Pinkham & Chen, 2009; Tihanyi, Devinney & Pedersen, 2012). Whereas early international business (IB) literature was dominated by neoclassical approaches and transaction costs explanations, more recent literature highlights the importance of institutions (Tihanyi et al., 2012, p. 33) and non-market forms of coordination (Jackson & Deeg, 2008a, p. 541).

Understanding international business activities of multinational corporations (MNCs) does not only depend on economic factors, but is also influenced by the formal and informal institutional environment of the home (Witt & Lewin, 2007) and the host country (Makino, Isobe & Chan, 2004). Institutional theory (IT) emphasizes the concept of isomorphism (Kostova & Zaheer, 1999). Isomorphism captures the process of homogenization by referring to the modification of organizational characteristics in order to increase the compatibility with the respective institutional environment (DiMaggio & Powell, 1983, p. 149). A large number of articles have already been published referring to IT and isomorphism has been proposed as a mechanism to gain legitimacy in the host country (see e.g. North, 1990; Kostova & Roth, 2002; Hillman & Wan, 2005). Another research strand, comparative capitalism (CC), works on the importance of the institutional environment and the institutional configuration for specific business activities. CC emphasizes the effect of the institutional configuration on the development of capabilities and business models of firms in specific economies (Jackson & Deeg, 2006; Whitley, 2007). The most prominent representative of that strand is Varieties of Capitalism (VoC), based on Hall and Soskice (2001), postulating that "*the institutional structure of the political economy provides firms with advantages for engaging in specific kinds of activities*" (Hall & Soskice, 2001, p. 32). The embeddedness of a firm in a specific institutional context represents a basis for the creation of distinctive organizational capabilities (OC) in order to develop a firm-specific advantage (FSA). FSA can be defined as a necessity for reaching competitive advantage, including distinctive skills and know-how (Aharoni, 1993, p. 38) and is contingent on the location of the firm (Erramilli, Agarwal & Seong-Soo, 1997, p. 736).

The importance of the institutional foundation for the development of specific capabilities of firms has been researched in numerous articles (see e.g. Lehrer, 2001; Harcourt & Wood, 2007; Parry, Dickmann & Morley, 2008; Schneider, Schulze-Bentrop & Paunescu, 2010). *Institutional competitiveness* refers to the advantage firms possess by operating in a specific economy displaying beneficial institutions for the firms' activities (Campbell & Pedersen, 2007, p. 230). Hence, to what extent firms profit from the institutional environment in order to develop distinctive organizational capabilities in one country raises the question about a successful cross-border transfer of these capabilities. If the firm internationalizes, the replication of the organizational capabilities, that form the basis for a firm-specific advantage, must be secured. Especially if the organizational capabilities are created with the support of a beneficial institutional context in the home country, firms must develop modes of OC transfer or replication in the host country, in particular if the institutional environment deviates substantially from the institutional capital of the home country. Developed economies display different institutional environments (Jackson & Deeg, 2006; Whitley, 1998), which affect the scope of action and behavior of multinational corporations (see e.g. Lane & Probert, 2006). Hence, if a specific institutional environment induces the creation of specific organizational capabilities, MNCs must develop coping mechanisms which permit them to manage institutional differences.

This thesis aims to address the question of how firms deal with institutional differences and how firms manage these differences with regard to the interaction between organizational capabilities and the relation of the institutional environment in their home country. The variation in the institutional context is explained by the application of VoC literature and includes liberal market economies (LMEs) and coordinated market economies (CMEs). IB literature emphasizes a strategic response to institutions, but is lacking an elaboration on why and how institutions influence MNCs, and also to what extent firms depend on the institutional capital available to them (Jackson & Deeg, 2008a, p. 541). This thesis is to a large extent a response to this call, since little is known about the way successful firms deal with institutional differences (Pache & Santos, 2010).

The empirical data has been gathered through a comparative case study of two firms. The two selected case firms are Lufthansa Technik AG (LHT) and LSG Lufthansa Service Holding AG (LSG), referred to as LSG Sky Chefs, which operate in different industries. LHT operates in the maintenance, repair and overhaul (MRO) industry for airplanes, which represents a firm with the possibility for global integration (Ghoshal & Nohria, 1993). LSG, on the other hand, needs to address local responsiveness due to its operations in airline catering (Ghoshal & Nohria, 1993) throughout the globe. LHT and LSG display diverging industry and firm-level characteristics, which make both firms a suitable choice for a comparative case study and additionally to provide fruitful antecedents for institutional coping mechanisms. Thirteen interviews were conducted in order to gain qualitative data and to find answers for the research questions. The analysis of the data revealed antecedents for different coping mechanisms, which are presented in a framework and lead to the development of propositions.

1.1. Research question

The main research interest is based upon the question why LHT and LSG are successful despite institutional differences between the home and the host countries. Based on VoC, this paper focuses on "*the long-standing criticisms of the industry-based and resource-based views' lack of attention to contexts*" (Peng et al., 2009, p. 63). Competitive advantage for a firm may not only depend on industry factors and resources, but is contingent upon a variety of institutional factors (Filatotchev, Jackson & Nakajima, 2013), which influence a firm's business model and possibilities for its economic activities in a specific country (see e.g. Lane & Probert, 2006). In line with an institutions-based argument, the resource-based view and literature about organizational capabilities are also included in this thesis in order to bridge the gap between firm strategy, the home country embeddedness for the development of organizational capabilities and antecedents for firm behavior. Home country embeddedness refers to the development of location-bound organizational capabilities. That is, capabilities which can be developed specifically due to the institutional capital available to the firm in the home country and lead to a firm-specific advantage (Harzing & Sorge, 2003).

In order to find out how firms can be successful in spite of significant institutional differences between the home and the host countries, one main research question and four sub-questions are addressed.

The main research question is therefore:

1. How do firms respond to institutional differences?

More specifically, the following sub-questions will be addressed:

1.1. *What determines how a firm deals with institutional differences?*

1.2. *How do firms transfer organizational capabilities across borders?*

1.3. *How does the institutional environment of liberal market economies and coordinated market economies affect the transfer of organizational capabilities?*

1.4. *And how do firms cope with the impact of divergent institutional environments in the host country?*

1.2. Academic and practical contribution

The underlying notion is based upon the assumption that globalization does not lead to a global convergence and that institutional differences across the globe would remain. By following this reasoning, the changes in the business system characteristics that derive from the formal and informal institutional environment, are unlikely to vanish (see e.g. Whitley, 1998; Yoshikawa & Rasheed, 2009). Path dependency, institutional linkages and the independent development of societal institutions across the globe support this notion. This increases the importance of VoC and the institutional environment for firms as, according to Whitley (1998), one cannot assume that convergence around the globe will happen in a short- to medium-term sight (see also Lauder, Brown & Ashton, 2008). *Institutional path dependence* refers to the stability of institutions and the inability to change fast due to historical roots and inter-institutional complementarities (Deeg, 2007). Despite global convergence debates, CC literature views institutions as rather stable and as of continuing importance. Hence, by elaborating a clearer understanding on the effect of different institutional environments, within the boundaries of developed Western countries, firms can develop respective coping mechanisms and adjust their behavior to optimize performance throughout their international activities.

Although there are existing studies that investigate the influence of institutions, a systematization and profound theory of a comparative understanding of institutions with a focus on its impact on firm behavior and strategy does not exist (Filatotchev et al., 2013). In order to fill the research gap of how MNCs deal with institutional differences (Pache & Santos, 2013), it is imperative to gather a more comprehensive understanding for which circumstances firms are particularly affected by institutions in their home and the host country. Following the recommendation of Oliver (1991), the analysis also reveals organizational antecedents for firms to adapt to institutions or to maintain organizational logics in order not to lose the advantage of specific organizational capabilities. It sheds light on the important question of how institutional variations, organizational strategies and firm behavior (Tihanyi et al., 2012) are intertwined with several theoretical strands, such as the Varieties of Capitalism literature, institutional and organization theory, the concept of organizational capabilities and strategy literature for MNCs.

Due to the empirical nature of this study, practical implications are gained as well. Critical institutional deviations between CMEs and LMEs are detected, which negatively affect businesses and the transfer of organizational capabilities. Valuable insights contain firm mechanisms and under which conditions these mechanisms are applied. The comparative case study design includes one firm that displays a possibility for global integration, LHT, and another firm that is highly internationalized and urged to be locally responsive, LSG. This attempts to shed light on following theoretically-founded questions. If organizational capabilities are considered an essential part for the performance of the firms, how are they able to transfer them successfully if they are embedded within a specific national context? To some extent they have to be fully replicated or re-deployed in the host environment (Knight & Cavusgil, 2004), which represents a challenge for the firm as the available resources are restricted to a particular location and restrict the firm to create advantage elsewhere (Zaheer & Nachum, 2011, p. 99). The second question stems from the assumption of institutional theorists who suggest the firm to become isomorphic with the institutional environment of the host country in order to gain legitimacy to operate. However, if firms fully adjust their business model to the available resources and capabilities in the host country, constrained and informed by institutions, the possibility of a transfer of organizational capabilities, especially if they are location-bound, becomes only partially possible. Addressing how firms manage this puzzle is one of the main focuses in this thesis, whereas the inclusion of two firms in the case study enables the detection of antecedents for different types of coping mechanisms. Additionally, this thesis aims to push the boundaries of the VoC literature further by examining the actual influence of CMEs and LMEs on the transfer of organizational capabilities and the replication of firm-specific advantages in relation to the level of location-bound organizational capabilities.

The remainder of this study falls into seven parts. In the next chapter, the theoretical background is elaborated with a special emphasis on the addressed theoretical puzzle. To follow, a justification for the case selection and a description about the two case firms is given. The methodological approach and data collection process is specified in the succeeding chapter. The case results of the data analysis are presented subsequently. The discussion chapter includes comparative findings and finalizes with a framework and the development of propositions. The penultimate chapter contains theoretical and practical implications, as well as limitations of the thesis and recommendations for future research. The concluding chapter sums up the major findings and refers back to the research questions. In this thesis, the terms *firm* and *MNC* are used interchangeably and refer to companies that conduct business also outside their home country.

2. LITERATURE REVIEW

This literature review elaborates on relevant theories and highlights inconsistent theoretical explanations, which serve as a motivation for this thesis. Starting with a description of the Varieties of Capitalism literature, the importance of organizational capabilities for firms and the relation to the cross-border transfer of OC is highlighted. Implications for MNCs deriving from VoC are given subsequently. Contradictions with regard to the organizational characteristics of MNCs and the home country embeddedness of firms are elaborated consequently incorporating theory-based solutions. The next section justifies the choice of conducting a comparative case study. The chapter ends with the theoretical puzzle, which ought to be solved through this empirical study.

Institutions include "*both formal organizations and informal rules and procedures that structure conduct*" (Thelen & Steinmo, 1992.). In this thesis, the definition of institutions follows a rather broad understanding referring to institutions as *rules of the game* (e.g. Peng et al., 2009, p. 64). According to North's (1990) distinction between formal and informal institutions, where formal institutions include laws and regulations and informal ones are norms and cultural aspects, the understanding of institutions in this study includes both distinguishing features. This results from the application of VoC literature as a main source and the classification into five different institutional spheres and hence another dimensional division of institutions compared to North's (1990) definition. Scott's (1995) categorization into regulative, normative and cognitive institutions is similar to the differentiation into formal and informal institutions. As the VoC literature refers to formal and informal, or regulative, normative and cognitive institutions, the definition of Hall is appropriate. Institutions for Hall embrace "*the formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy*" (Hall in Thelen & Steinmo, 1992, p. 1).

2.1. Varieties of Capitalism

Comparative capitalism explores differences within developed economies and states that capitalist economies display variations in their coordination mechanism impacting the behavior of actors within the system (Jackson & Deeg, 2008b). CC is based on three main premises. The first one is marked as *institutional configuration* and corresponds to specific institutions which create a distinct economic logic. Institutions stipulate the way economic actors respond to coordination problems. The outcome depends on the institutional configuration and therefore also governs the economic development of countries (Amable, 2003, p. 29). Furthermore, CC can also be equated with the concept of *comparative institutional advantage*, implying that the institutional features of economies support specific economic activities of firms, whereas others create boundaries for the firm. The third concept is called *path dependency* and refers to the relatively stable economic environment in developed markets. This argument can be explained through institutional complementarities referring to the interdependencies between institutions which hinder a rapid change within the economic system (Jackson & Deeg, 2008b). This thesis specifically focuses on the institutional configuration as it elaborates on the interaction between the institutional context and the creation of OC leading to a firm-specific advantage.

Hall and Soskice (2001) provide probably the most theoretically fundamental and richest theory in that research field (Blyth, 2003). VoC is one major guise of CC and is guided by firm-level questions like: *"Do companies located in different nations display systematic differences in their structure and strategies? If so, what inspires such differences?"* (Hall & Soskice, 2001, p. 1). What distinguishes VoC from other CC theories is the strong focus on the firm-level. Hall and Soskice (2001) emphasize the coordination mechanism within capitalist economies and their impact on firm behavior. The VoC approach offers a conceptual framework about why various business systems have emerged in specific countries and distinguishes between liberal and coordinated market economies. "*Firms in LMEs and CMEs develop distinctive strategies and structures to capitalize on the institutions available for market or non-market coordination in the economy*" (Hall & Soskice, 2001, p. 56). The institutional environment of the home country can lead to comparative advantages for specific business activities in the respective country (Hall & Soskice, 2001).

Hall and Soskice (2001) identify five spheres of coordination problems. Depending on how companies resolve them, economies are either classified into a liberal or a coordinated market economy (Blyth, 2003). These five spheres encompass industrial relations, vocational training and education, corporate governance, inter-firm relations and employees (Hall & Soskice, 2001). The distinction between LMEs and CMEs derives from the firm's response to coordination problems in the market. Whereas in liberal market economies these coordination problems are tackled through arms-length relationships, in coordinated market economies coordination is more likely to occur through non-market interactions between firms (Crouch, 2005).

The sphere of industrial relations comprises the coordination of bargaining for wages and working conditions for the employees and the structural relationship between employers and trade unions. This sphere induces employment practices of firms such as the possibility to hire and fire in the USA or the collective bargaining rounds in Germany and other CMEs. Industrial relations in LMEs and CMEs produce different outcomes for firms (Hall & Soskice, 2001; Almond & Menendez, 2006). The education and training system of the respective economy is important in terms of providing the desired skills and competencies for the firm. This requires the company to decide on how much to invest in training internally. The educational and training system conditions the skill levels of the workforce in an economy (Hall & Soskice, 2001, p. 7). The sphere of corporate governance addresses the access to finance and the way of assurance for the investors for their returns. Using the framework of agency theory, it is related to the question of how shareholders control the management (Jackson & Deeg, 2006) and therefore affect the availability of finance, e.g. for major projects (Hall & Soskice, 2001, p. 7). Inter-firm relations refer to the relationships of a company with other firms. This sphere entails for example standard-setting, technology transfer and shared research and development. Differences arise from the question of competition versus cooperation and the risk of sharing proprietary information

(Hall & Soskice, 2001, p. 7). The fifth sphere comprises employees and the challenge of retaining employees with the right competencies and motivation to advance the objectives of the firm. Adverse selection and moral hazard are two problems that firms have to solve in this context (Hall & Soskice, 2001, p. 7). Consolidated, liberal market economies are characterized by short-term company finance, deregulated labor markets, general education and a strong inter-company competition. Coordinated market economies, in contrast, display long-term industrial finance, cooperative industrial relations, high levels of vocational and firm-specific training and cooperation in technology and standard-setting across companies (Boyer, 2005, p. 529). The institutional configuration leads to more radical innovations, high-technology firms (Schneider et al., 2010, p. 247) and competition on the basis of low-cost production (Campbell & Pedersen, 2007, p. 232) in LMEs. The relation between firms is competitive and the employment practices are rather regulated on a firm-level (Almond & Menendez, 2006, p. 410). In CMEs, firms display rather incremental innovations, competition on quality products (Campbell & Pedersen, 2007, p. 232) and a higher collaboration between firms (Almond & Menendez, 2006, p. 410).

According to these five coordination mechanisms, Hall and Soskice (2001) classify the USA, Britain, Australia, Canada, New Zealand and Ireland as liberal market economies and Germany, Japan, Switzerland, the Netherlands, Scandinavia, Belgium and Austria as coordinated market economies. Other Western countries such as France and Italy represent more hybrid forms and are neglected in this study.

2.1.1. The importance of organizational capabilities

One main argument putting emphasis on the institutional context of the home and the host country criticizes the lack of industry-based and resource-based theories on contextual variables (Peng et al., 2009). Resources can be considered as the underlying necessity for the firm in order to develop capabilities. Relating to LHT and LSG, resources are for example human resources and technological skills. Resources are understood as the assets and competences available to the firm. Institutions can further support the translation of resources into capabilities (Oliver, 1997, p. 709). A combination of resources, which is available to the firm but not to all firms equally, can then be converted into capabilities as a premise for higher returns compared to peers (Rugman & Verbeke, 2002, p. 770). Capability as a concept "*implies the potential to deliver consistent performance within a specified field* *by repeated applications of established patterns of behavior, which constitute "knowledge how"*" (Loasby, 2010, p. 1303). For Teece, Pisano and Shuen (1997) "*the term "capabilities" emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competences to match the requirements of a changing environment*" (Teece et al., 1997, p. 515). Following Winter (2000), *"an organizational capability is a high-level routine (or collection of routines) that, together with its implementing input flows, confers upon an organization's management a set of decision options for producing significant outputs of a particular type"* (Winter, 2000, p. 983). Furthermore, Knight and Cavusgil (2004) see organizational capabilities consisting of critical competences and embedded routines (Knight & Cavusgil, 2004, p. 126). Institutions in Germany such as the dual educational system or bilateral working agreements support the translation of the available resources into capabilities.

Organizational capabilities and especially their creation and transfer are consequently an integral element of successful MNCs. The development of organizational capabilities is intertwined with the institutional capital available to the firm. Firms, which are able to convert available resources with the help of dominant institutions into capabilities, become more competitive (Whitley, 2007, p. 148; Wernerfelt, 1984). Hence, organizational capabilities represent one source for the creation of a competitive advantage for firms. If the development of these capabilities is based on the institutional environment, or location-bound, the successful transfer or duplication in the foreign country is crucial. This implies that especially MNCs, operating across different environments, face the challenge of securing these superior capabilities in different economies as well. Despite the assumption of Dunning and Lundan (2008), that location is not an integral part of a sustainable competitive advantage since it is also accessible for competitors, the successful transformation of valuable resources into organizational capabilities can lead to unique capital for the firm. The extent, to which the firm is able to do so, is called *location capability* (Zaheer & Nachum, 2011). Hence, Zaheer and Nachum (2011) state that the location can be a source for sustainable firm-specific advantage. This is in line with the general notion of organization theorists who emphasize the importance of the embeddedness of the firm and its impact on the behavior (Pache & Santos, 2010, p. 455). In this study, a prime example of a CME, namely Germany, represents the home country of the two firms used in this case study.

Walmart's failed investment in Germany illustrates an example for the importance of the connection between resources, institutions and firm success. Walmart's success in the USA is based on the possibility to control input factors such as labor and suppliers and to make fast changes according to market requirements, possible due to the lack of a strong regulatory environment (Christopherson, 2007, p. 453f). Their success depends on the institutional environment in the USA. When entering the German market, Walmart faced several obstacles preventing to implement the same strategy as in the USA. German regulations for land use prevent megastores and since the big supermarket chains in Germany are privately owned, an entry strategy based on hostile takeovers to reach scale was impossible. Furthermore, due to stricter regulations, Walmart was not able to exert a large power over their supplier network (Christopherson, 2007). All in all, Walmart was unable to install the low cost concept in Germany and failed. That justifies the use of VoC as the underlying theoretical concept, since, as a theoretical strand of CC, it permits an analysis of the structural relationship between the institutional context and the firm-specific advantage based on distinctive organizational capabilities. The way MNCs organize their activities across borders, where and to what extent they integrate their resources distinguishes the firm from others (Whitley, 2001, p. 32). Along the lines of this argument, Whitley (2001) hypothesizes that the more complex organizations become due to operations in several environments, the more likely will they develop distinctive routines and capabilities. Given that the capabilities of the firm can be seen as the basis for an evolutionary theory of the firm, the cross-border transfer of organizational capabilities represents an essential success factor (Zander & Kogut, 1995).

2.1.2. Consequences for MNCs

Since Hall and Soskice (2001) put the firm center stage in their conceptualization of VoC, several studies examining the impact of institutional environments on firms' capabilities have already been published (see e.g. Campbell & Pedersen, 2007; Farndale, Brewster & Poutsma, 2008; Morgan & Quack, 2005; Geppert, Williams & Matten, 2003; Lehrer, 2001). Iseke and Schneider (2012) focused on the sphere of employment practices and industrial relations between CMEs and LMEs and revealed that employment practices are more often transferred than industrial relations practices, whereas HR practices are more often transferred from LMEs to CMEs than vice versa (Iseke & Schneider, 2012, p. 236). These results are not surprising in terms of characteristics and path dependencies of employment practices versus industrial relations and their transferability. Moreover, MNCs are rather forced to adapt to local industrial relations practices than employment practices (Iseke & Schneider, 2012, p. 241). Research shows that especially the spheres of employees and vocational education and training impact firms' strategies and behavior relating to international activities across different institutional environments (see e.g. Kluike & Pull, 2013; Parry et al., 2008). The explanation can be found in the linkage between the development of organizational capabilities and the institutional context of the firm.

The study of Lehrer (2001) revealed evidence for the impact of the macro-institutional environment in Germany, the UK and France and how airline companies formulated and implemented their strategies according to the different endowments of the respective institutional resources (Lehrer, 2001, p. 373). In particular, the case study shows that the institutional environment has an influence on how the management sets up new strategies and how they orchestrate the organizational processes. The educational system, the labor market and the corporate control mechanism sway the available resources and create space or boundaries for firm behavior (Lehrer, 2001, p. 386). What Hall and Soskice (2001, p. 6) point out in their VoC perception is the relational view of the firm. Following this conception, the relationship of the firm with its employees and other stakeholders plays a crucial role in how they can exploit their resources, based on institutional endowments, and convert them into capabilities. Gooderham, Nordhaug and Ringdal (1999) discovered that the institutional and cultural environment, hence the embeddedness of the firm, looms larger with regard to organizational practices than industry- or firm-level determinants.

What makes the use of VoC particularly appealing for this thesis is the question regarding the explanatory value for MNCs. Hall and Soskice (2001) predict specific coordination mechanisms for LMEs and CMEs resulting in particular firm behavior and therefore types of firms. As VoC distinguishes between two types of economies, the question arises how MNCs, rooted in either a LME or a CME, respond to the variation towards their affiliates abroad and to an oppositional economic constellation. The benefit of VoC for business strategists is the firm-level emphasis. Based on the theoretical assumption that strategy follows structure (Hall & Soskice, 2001, p. 15), firms which operate affiliates in both types of economies represent an insightful unit of analysis as they are claimed to develop their strategic behavior depending on the institutions and coordinating mechanisms available to them (see e.g. Lehrer, 2001).

In LMEs, employment practices are characterized as task-oriented, whereas in CMEs the job requirements request a broader skillset of the single employee. LME environment provides the possibility to hire and fire and short-term adjustments can take place according to the market situation. This is in contrast to CMEs, where firms emphasize the retention and development of employees (Iseke & Schneider, 2012, p. 239). The distinctive educational system in Germany and the sophisticated system for vocational training in CMEs let the firms based in CMEs develop a higher quality of their products (Streeck, 1997). Collective bargaining agreements are used in most of the German firms leading to a high standardization of employment conditions. The second significant institution is co-determination, which allows employee representatives to participate in major management decisions. Both institutions make firms quite inflexible regarding specific economic conditions since the agreements are negotiated between employer and employee representatives and the workers council needs to be included or at least consulted for major strategic decisions (Giardini, Kabst & Müller-Camen, 2005, p. 67f). Institutional complementarities can, for example, be found in the interaction between the vocational education and the sphere of industrial relations with regard to the development of OC. Thanks to a high educational level, a newly hired employee brings in already a large set of skills. Together with long-term working contracts based on bilateral agreements negotiated by actors of industrial relations and the inability to hire and fire, firms can develop specific capabilities based e.g. on the large knowledge base of the employee. Firms in CMEs can easier develop firm-specific skills, since *patient capital* and coordinated wage setting within industries prevent poaching (Höpner, 2005, p. 338). Patient capital refers to the possibility of CME-based firms to retain employees during economic downturns due to the characteristics of the market for corporate governance, which relies also on non-publicly available information. Investors cannot only rely on balance sheet financials and must therefore rather invest in long-term projects (Hall & Soskice, 2001, p. 22). A high employment protection, a high level of firm- and industry specific skills and a stakeholder-orientation instead of a shareholder orientation are characteristics of Germany as a CME (Kluike & Pull, 2013, p. 497). The importance of the institutional context on capability development is well-documented through e.g. studies by Hall and Soskice (2001) and Whitley (1999), but a clear understanding for IB research is still missing (Morgan & Whitley, 2003), especially in terms of the level of location-bound organizational capabilities, the transfer of OC and the institutional context.

2.2. Existing theoretical solutions

This section outlines major theoretically-informed solutions for the tension between the importance of the institutional home environment and how firms deal with institutional differences abroad. Based on the assumption that the business system is shaped and constrained by the institutions of the economy (Whitley, 1998), outward foreign direct investment (OFDI) and institutional arbitrage become two mentionable concepts. One reason of OFDI can be found in the institutional constraints of the home country (Schoppa, 2008). According to Witt and Lewin (2007), OFDI takes place if institutional misalignment occurs. Institutional misalignment stems from the mismatch between the desired business system and the institutions the firm is embedded in. OFDI is positively related to the scope and level of social coordination within an economy, representing contingency for institutional misalignment (Witt & Lewin, 2007). Another explanation for OFDI is institutional arbitrage. Institutional arbitrage derives from differing institutional settings across nations and offers the firm the possibility to shape the strategy and locate the international activities wherever a comparative institutional advantage can be exploited (Jackson & Deeg, 2008a, p. 553). Economies provide firms with a specific institutional framework and an institutional configuration, which lead firms to engage in specific activities in that economy. Firms focus on specific activities because they receive institutional support (Hall & Soskice, 2001, p. 37). Since the institutional capital is not evenly distributed between nations (Hall & Soskice, 2001, p. 37), firms can engage in institutional arbitrage. One example for institutional arbitrage is Nissan's decision to locate the design facilities in Silicon Valley, whereas the headquarters (HQ) are in Japan, a CME. LMEs indicate a stronger support for innovations in some areas (Lehrer, 2001; Vitols, 2001).

The importance and influence of institutions for MNCs has been analyzed from various angles. Institutional theory is concerned with the legitimization of firms in a specific host environment. The firm is exposed to isomorphic pressures in order to get socially accepted and to receive access to resources (DiMaggio & Powell, 1983). Therefore, one of the major questions of institutional theorists is how firms cope with this pressure of conformism (see e.g. Oliver, 1991), if foreign subsidiaries are set up in various institutional environments. One antecedent for explaining the variance of foreign subsidiaries to adapt to host country practices rather than HQ pressures can be found in the institutional configuration of the home country (Kostova & Roth, 2002). If MNCs attempt to roll out practices from the headquarters, which are formulated in the home country institutional context, the relationship between the HQ and the subsidiary becomes essential (Kostova & Roth, 2002, p. 218).

Recent studies in IT include concepts like the *advantages of foreignness* deriving from institutional deviance (Shi & Hoskisson, 2012), which contrasts the concept of *liability of foreignness*. Liability of foreignness encompasses the costs for firms for doing business abroad and refers to the disadvantages a foreign company faces compared to national competitors in a host country (Zaheer, 1995, p. 341). Stevens and Shenkar (2012) came up with *liability of home*, responding to country-of-origin effects and how firms might be negatively affected in their competitiveness due to restricting institutions in their home country. Advantages of foreignness and liability of home are two intertwined concepts, as the one can potentially cause the other or at least might be related to advantages a firm enjoys in a host country. Both constructs can also be identified as antecedents for institutional arbitrage. The concept is connected to the notion of Hall and Soskice (2001), that the institutional capital of an economy determines the resources available to the firm and furthermore creates the possibility to turn them into capabilities (Morgan & Whitley, 2003, p. 611) in order to develop a firm-specific advantage. Another example for institutional arbitrage is Lufthansa's consideration to offshore the headquarters for a new long-distance, low-cost airline abroad because of the massive influence of the craft unions in Germany (Ginten, 2014). The current institutional environment in Germany is detrimental to implement the business model for a long-distance low-cost airline and prevents Lufthansa from getting competitive without that strategic move. Lufthansa's plan is in line with the findings from Witt and Lewin (2007), who consider outward foreign direct investment as an escape response to the home country's institutional environment. What makes the concepts of advantages of foreignness, liability of home and institutional arbitrage valuable is the underlying notion of institutional differences and its significance for MNCs. Literature suggests that institutional differences are not necessarily destructive for firms, if they are able to apply institutional arbitrage. Institutional arbitrage is therefore one solution for firms which have to deal with different institutional environments. The firm is more familiar with the home country environment but that does not imply automatically that the institutions are all favorable for the firm (Gaur & Lu, 2007, p. 88).

Institutional theory is incorporated in this study as it includes explanations of why and how organizations adapt to their host country environment. It therefore provides valuable insights on the connection between institutions and firm behavior. Given that IT focuses on isomorphic pressures stemming from deviating normative, regulative and cultural-cognitive institutions (Shi & Hoskisson, 2012), this study does not explicitly focus on these hypotheses. But IT is one part of the theoretical puzzle ought to be solved through this empirical analysis as isomorphism endangers a successful transfer of key organizational capabilities, if they are embedded in a specific institutional environment and location-bound. Referring to the Walmart example, the supermarket chain had to respond to pressures stemming from the institutional environment in Germany. That isomorphism let them lose their competitive advantage, which Walmart possesses in the USA. The trade-off between IT, the transfer of core capabilities and how firms respond to this challenge is part of this comparative case study since it aims at detecting ways of firms for managing the challenge of transferring their business model, based on resources and institutions available to them, across borders. The Walmart example shows that it is important to use comparative institutional analysis in order to work out a clear understanding of the relation between the home country institutional capital and the firm-specific advantage and the impact of a diverging institutional environment when transferring organizational capabilities. Institutional theory and comparative capitalism literature make different assumptions about firm behavior. Whereas according to IT, institutional differences between the home and the host country produce conformity within the host country, CC is skeptical about the ability to become a truly multinational company if the level of location-bound organizational capabilities, derived from a supportive institutional environment in the home country, is high (see e.g. Ferner & Quintanilla, 1998; Streeck, 1997; Whitley, 2001). CC highlights the importance of the embeddedness of firms in a national institutional framework, but largely neglects the modalities of global diffusion of organizational capabilities and how these can be transferred and secured in different institutional surroundings.

2.3. Organizational characteristics and strategy implications for MNCs

The research design of this thesis uses a comparative case study including two firms. They differ from each other in terms of the industry and therefore the organizational characteristics. Whereas LHT pursues a global strategy, due to the industry specificities which permits a high level of standardization, LSG follows a multinational strategy with a higher pressure for local responsiveness. The main product of LSG, that is offering of airline catering, is not suitable for a global integration approach (Ghoshal &

Nohria, 1993, p. 27). According to the MNC typology of Bartlett and Ghoshal (1998), LHT can be classified as global company and LSG as multinational company. The global company is centralized and knowledge development solely takes place at the headquarters level. Multinational companies are characterized by decentralization, rather independent affiliates and the ability of exploitation of local opportunities (Bartlett & Ghoshal, 1998).

From a strategy and performance perspective, it is argued that firms perform better if the gap between strategy and institutional endowments is small. Firms may develop a competitive advantage if they are able to adapt to the respective environments (Jackson & Deeg, 2008a, p. 544). This likewise represents the leading paradigm of organization theory. *"Organizations scholars have long recognized that organizations are embedded in social environments that influence their behavior"* (Pache & Santos, 2010, p. 455). And here institutional theory can be mentioned as one clear explanation of how MNCs conform to the host country environment (Pache & Santos, 2010, p. 455). If adaptation is considered as the dominant strategy leading to firm success, the practical as well as theoretical challenge lies in finding solutions for the effective transfer of organizational capabilities, especially if they are location-bound or strongly dependent on the home country institutional environment.

Ghemawat (2007) proposes alternatives to adaptation as the single remedy for MNCs to build global strategies. He additionally adds *aggregation* and *arbitrage*. Aggregation can be conducted by aggregating business, regions or customers with the goal of international standardization for the bundle to achieve economies of scale and scope. Arbitrage includes the segregation into functions and allocation of the functions even across borders. This leads to specialization throughout different countries in order to achieve economies (Ghemawat, 2007, p. 61). In terms of organizational characteristics of firms, arbitrage leads to a multinational company as knowledge is not created centrally and stays in the sub-units (Bartlett, Ghoshal 1989). Ghoshal and Nohria (1993) add specific industries to this integration-responsiveness framework. Food, beverages and household appliances call for local responsiveness and therefore multinational firms are more able to serve that need. Contrary, engines, chemicals and construction machinery require very low local adaptation and the global company is considered to display appropriate organizational characteristics (Ghoshal & Nohria, 1993, p. 27).

The question of the interconnectedness between the country-of-origin effect and the control mechanism leading to organizational characteristics of the firm becomes valuable for this study, especially with regard to the product and industry distinction of Ghoshal and Nohria (1993). Noorderhaven and Harzing (2003) propose a negative relationship between the number of different institutional environments the firm is operating in and the importance of the country-of-origin effect. This implies that the more a firm is internationalized, the less important is the home country as a base. The scope of the country-of-origin effect, or in other words the home country embeddedness, is a major antecedent of how firms control their affiliates (Harzing & Sorge, 2003). Using sample firms following global and multinational strategies contributes to a better understanding of how MNCs combine location capability (Zaheer & Nachum, 2011) and coping mechanisms. Bartlett and Ghoshal's typology is useful and justifies the selection of both case firms, since it is able to shed light into the theoretical contradictions deriving from the basic assumptions of organization theorists including IT, the country-of-origin effect and its importance for the transfer of OC.

2.4. Summary of the puzzle

The aim of the study is to provide empirical explanations to specific theoretical contradictions. It furthermore builds on a cross-fertilization of IB literature and CC, which has its roots in the field of political economy. VoC theory adds to an understanding on how and why firms differ between liberal and market economies. But there is not yet an explanation available, how MNCs, operating in both types of economies, react to these substantial differences.

According to existing theory, a high level of location-bound organizational capabilities, referring to the concept of location capability, is detrimental for the internationalization of companies (see e.g. Noorderhaven & Harzing, 2003; Whitley, 2001; Ferner & Quintanilla, 1998). Solutions include concepts such as institutional arbitrage, outward foreign direct investment due to liability of home, but also advantages of foreignness for firms. Institutional theory suggests isomorphism as a solution to overcome liability of foreignness (Zaheer, 1995) and to operate successfully throughout different institutional environments. But this argument is not compatible with a high level of location-bound OC serving as a basis for a FSA. There is a theoretical contradiction based upon firm-specific advantages or distinctive organizational capabilities and the relation to institutional home context. Thereby associated is the argument of organization scholars, who claim that the embeddedness of the firm in a specific cultural and institutional environment influences the behavior of firms (Pache & Santos, 2010, p. 455). Hence, the country-of-origin effect, or the importance of the home country embeddedness, has to be taken into consideration. These pieces of the puzzle are framed around the basic assumptions of the organizational characteristics of MNCs according to Bartlett and Ghoshal (1989) and the continued work of Ghoshal and Nohria (1993). Their integration-responsiveness framework provides a starting point for the analysis of antecedents of various coping mechanisms of firms in order to deal with institutional differences. An encompassing framework for the theoretical puzzle based upon empirical data is still missing. With the help of qualitative data, this study contributes to several theoretical strands and tries to shed light on contradicting explanations for coping mechanisms and firm behavior.

3. CASE SELECTION

In order to study the impact of institutional differences on MNCs, two Germany-based firms are chosen to be investigated. Lufthansa Technik, offering maintenance, repair and overhaul for aircrafts worldwide and LSG Sky Chefs, a world-leading airline catering company, were selected. Both companies belong to the same aviation group, which is a fact that is controlled for during the analysis. Nonetheless, the selected firms are independent from each other and have their own board of directors and different business models (LSG Lufthansa Service Holding AG, 2014; Lufthansa Technik AG, 2014).

The use of a comparative case study is suitable with regard to the research questions since *"the aim is to see processes and outcomes across many cases, to understand how they are qualified by local conditions, and thus develop more sophisticated descriptions and more powerful explanations"* (Miles & Huberman, 1994, p. 172). To ensure an informed comparison between the cases, the selected firms must display differences in some characteristics and similarities in other dimensions (Odell, 2001, p. 167). The same questions during the interviews are asked to both firms with the aim of detecting different dimensions having an effect on the research variables and therefore every single case has to be chosen for a purpose (Ghauri & Firth, 2009, p. 33f). The differences of the case firms can be found in the industry and the firm-level characteristics, which might yield important insights for the questions of how firms transfer organizational capabilities and what determines how firms deal with institutional differences. According to the industry, LHT is able to pursue a global integration approach (Ghoshal & Nohria, 1993), since the products require little local adaptation and are therefore more standardized. LSG offers airline catering and the industry calls for local responsiveness and a higher level of local adaptation of the products (Ghoshal & Nohria, 1993). These theoretically informed characteristics justify the appropriateness of the case selection. Furthermore, both companies need to display similarities on some other dimensions to ensure coherence can be controlled in both cases.

First, both firms need to be profitable, which serves as a proxy for a successful business model. Both companies are also market leaders in their industry (Deutsche Lufthansa AG, 2013). These attributes verify the argument that LHT and LSG are able to create above-average returns and therefore possess resources and distinctive capabilities that distinguish themselves from their competitors and that can in some way be replicated abroad. During the last years, both firms could increase their revenues and show a solid financial performance. Table 1 shows major financial performance indicators (in Mio. €) during the last four years (Deutsche Lufthansa AG, 2010-2013) and gives an overview of the size of both firms.

Table 1: Financial indicators of LHT and LSG

	2010	**2011**	**2012**	**2013**
LHT				
Revenue	4.018	4.093	4.013	4.180
Operating result	268	257	318	404
Operating margin	6.7 %	6.3 %	7.9 %	9.7 %
Employees per 31.12.	20.159	19.975	20.282	19.917
LSG				
Revenue	2.249	2.299	2.503	2.514
Operating result	76	85	97	105
Operating margin	3.4 %	3.7 %	3.9 %	4.2 %
Employees per 31.12.	28.499	29.586	30.088	32.307

Second, an important criterion for the case selection was the large scope of international activities. This characteristic is specifically important as the emphasis of the thesis is put on the international success of the firms and how they can transfer the firm-specific capabilities across borders. Moreover, as one of the underlying theoretical constructions is VoC, both firms must operate affiliates in the respective countries according to the theory. The concerned countries are included in the company descriptions and concern affiliates in liberal and coordinated market economies. Other countries were not included in the analysis since the VoC literature is not applicable for Asian countries or emerging economies (Witt & Redding, 2013).

Third, even though both companies operate in different fields, it is part of their strategy, to serve the customer's needs as close to the market as possible. LHT, as well as LSG, exclusively perform almost all value creating activities close to the customer (LSG Lufthansa Service Holding AG, 2014; Lufthansa Technik AG, 2014) and the transfer of their capabilities across borders is of fundamental significance for the firm's success. In order to justify the importance of the institutional context for the firm, the selected firms must display international activities including foreign subsidiaries with major assets (Whitley, 2001, p. 34). Only if a significant proportion of the business activities are conducted abroad, and more specifically, the foreign commitment is essential for the success of the firm, the divergent institutional environments put considerable pressure on the firm to develop coping mechanisms.

Whitley (2007) considers the connection between the domestic institutional environment and organizational capabilities as a very strong antecedent for internationalization strategies. He argues that firms from integrated business systems displaying a cooperative hierarchy are very unlikely to undertake major foreign direct investments and have a limited transferability of firm-specific competitive advantages (Whitley, 2007, p. 45). The two firms chosen for the case study display a considerable amount of foreign direct investments (FDI), which is illustrated in the next section about the company descriptions. MRO facilities must be set up abroad in order to serve customers and facilities to produce airline catering products must also be established close to the customer and cannot be split up into different locations. The decisions for internationalizing are not based upon resource-seeking or efficiency-seeking. Rather is market-seeking considered as the main driving force for setting up subsidiaries abroad for LHT and LSG. The characteristics of the industries of both case companies and the product itself require the establishment of all essential parts of the value chain in the host country (Interview 1, LHT, Manager Subsidiary Controlling; Interview 10, LSG, SVP Strategy). The location of their major customers determines their location decisions. Thus, what makes the selection of the sample firms valid and remarkable is the fact that they conduct their core activities through the transfer of central assets abroad and display a high institutional variety, which both firms have to cope with.

3.1. Lufthansa Technik

Lufthansa Technik is the world's leading aircraft services company by providing maintenance, repair and overhaul, engine and component services, landing gear services as well as VIP jet solutions. Furthermore, the firm provides a portfolio of technology, training and logistics services, hence offering one-stop customer solutions (Lufthansa Technik AG, 2014). In 2013, LHT employed almost 20,000 people globally and had revenues up to 4.2 billion Euros. The operating profit reached 404 million Euros and the firm displayed an adjusted operating margin of 9.7 % (Lufthansa Technik AG, 2013). LHT emphasizes its international presence and operates in the world's regional air transport markets as a part of their growth strategy (Interview 2, LHT, Manager Strategy and Business Development). The headquarters is located in Hamburg, Germany. LHT operates wholly-owned subsidiaries, joint ventures and sales offices abroad. The decision about the operating mode abroad is a case-by-case decision and depends on the reason for internationalization (Interview 1, LHT, Manager Subsidiary Controlling). During the analysis, the attention to data was focused on the operating mode as a potential moderating variable. Figure 1 shows the foreign affiliates of LHT (Deutsche Lufthansa AG, 2013, p. 75).

Figure 1: Global presence of Lufthansa Technik

Even though LHT operates affiliates around the globe, the focus is placed on subsidiaries within developed economies. According to the Hall and Soskice's (2001) typology of coordinated market economies and liberal market economies, specific emphasis is put on the subsidiaries in the following countries (Lufthansa Technik AG, 2013):

Table 2: Affiliates of LHT in LMEs and CMEs

LMEs	CMEs
USA	Germany
UK	Belgium
Ireland	Switzerland

The choice for LHT as a case firm was based upon its rich explanatory power, in consideration of the research questions and the underlying theoretical concepts. LHT's home base, Germany, is a prime example of a CME. The firm therefore offers the opportunity to find out the extent to which organizational capabilities derive from a favorable institutional environment and what influence the German institutional environment has on the firm. Since LHT runs operations in LMEs and CMEs, insights about the transfer of organizational capabilities and the influence of a diverging host country environment can be gained and related to the theoretical concepts, such as Varieties of Capitalism.

3.2. LSG Sky Chefs

LSG Sky Chefs is market leader in airline catering with a share of the global market of 29 % and a focus on further expansion and product development (LSG Lufthansa Service Holding AG, 2013). The headquarters is in Frankfurt, Germany. The firm produced over 532 million airline meals for more than 300 airlines worldwide (LSG Lufthansa Service Holding AG, 2014). The airline catering is not only part of their core competencies as their product offering also encompasses in-flight service related processes. *"Through its catering expertise, LSG Sky Chefs has developed specialized skills in the planning, implementation and management of all processes related to in-flight services. That includes the design, development, procurement and logistics related to in-flight services equipment"* (LSG Lufthansa Service Holding AG, 2014). Their product is mainly offered in economy class, where LSG produces high volume in contrast to first and business class, which requires products with a lower volume (Interview 11, LSG, VP Strategy and Business Development Europe). Figure 2 shows the affiliates of LSG throughout the globe (Deutsche Lufthansa AG, 2013, p. 79).

Figure 2: Global presence of LSG Sky Chefs

- Wholly-Owned Subsidiaries
- Joint Ventures
- Strategic Partnerships

Classified according to the distinction between liberal market economies and coordinated market economies in the VoC literature, LSG runs operations in the following countries (LSG Lufthansa Service Holding AG, 2014):

Table 3: Affiliates of LSG in LMEs and CMEs

LMEs	CMEs
USA	Germany
UK	Finland
Canada	Denmark
New Zealand	Norway
	Sweden
	Belgium
	Netherlands

In the food and beverage industry, and more specifically airline catering, there is a need for local responsiveness (Ghoshal & Nohria, 1993, p. 27). LSG qualifies as a case firm by delivering enlightening findings. Besides the case selection criteria described earlier in this section, namely being profitable, operating across LMEs and CMEs and the necessity to locate the whole production abroad when internationalizing due to market-seeking, the criteria for local responsiveness permits insightful results. These potential results refer to the extent to which LSG benefits from a CME as the home country in order to develop distinctive organizational capabilities. And what distinguishes the transfer of organizational capabilities, compared to LHT, including the development of coping mechanisms to manage institutional differences between the home and the host country.

Both of the selected companies are internationally successful and pursue an even more intensive expansion strategy abroad (Interview 3, LHT, VP Strategy PD Components; Interview 7, LSG, VP Mergers and Acquisitions). The success of both firms therefore contests the findings of Geppert et al. (2003), stating that MNCs with a CME home base face more challenges in implementing a global strategy and policy based on standardized products than MNCs from a LME. Whitley's (2007) findings also predict an unlikelihood for companies from a highly integrated and cohesive business system to become transnational companies. He argues that constraints from domestic embeddedness and close inter-organizational ties are the reason for the restrained development (Whitley in Lane, 2001, p. 69). The success of LHT and LSG, the international activities in theoretically relevant countries for this study and specific industry and firm-level characteristics challenge this assumption.

4. METHODOLOGY

Case study research is gaining interest in the IB literature, as approaches and methods of analysis have increased in quality and are therefore more and more able to fulfill the criteria of validation (Collinson & Rugman, 2010). To identify the coping mechanisms of firms that are active in differing institutional environments, an empirical study design was chosen. Given the importance of the contextual, complex environment the individual firm is operating in, a qualitative method is chosen. This follows the general tendency of scholars in that respective field of research, who prefer qualitative research methods (Forsgren, 2008, p. 126). For this thesis, an exploratory case study approach is applied, which does not require final definitions of research questions and hypothesis before empirical data is gained (Yin, 1993, p. 5). Yet, case studies are specifically appropriate for "how" and "why" research questions (Yin, 2003). According to Ghauri (2004) the use of case studies creates value if the existing literature is deficient and related to cross-border phenomena.

Following Yin (1993), the broad concept of the study has been established before starting the writing and data collection process. However, in order to start the research process, an initial research question is essential, which can then be adjusted along with the research process (Eisenhardt, 1989). An iterative process for the final clarification of the research question, the unit of analysis and the theoretical background is not detrimental to the research method. Moreover, it is in line with an inductive approach. Whereas a deductive approach aims to test theory, inductive research is focused on developing theory and therefore there is no need to start with a pre-defined theory or a framework that have to be tested. A great advantage of using the case study approach is that it finalizes with a hypothesis-generating outcome of the empirical findings. This is one of the most valuable outcomes when using case study approach (Odell, 2001, p. 165).

In terms of philosophy of science, the inductive approach can be related to interpretivism, whereas deduction can be classified into a positivistic research paradigm (Saunders, Lewis & Thornhill, 2009, p. 124). Interpretive studies are necessarily case studies (Halfpenny, 1979, p. 811). The research design follows an interpretive approach since the interview partners' different answers refer to the perception of institutional environments and how they interpret the severity of institutional deviations of the foreign market and therefore develop coping mechanisms. Hence, interpretivism enables the capturing of these variations. Positivism makes use of statistical tools and believes in the measurability of social constructs (Abbott, 2004), but is not applicable in this thesis due to its inability to incorporate social complexity and its strong focus on law-like generalizations (Saunders et al., 2009, p. 116). Additionally, the inductive approach responds to the disadvantage of deduction in terms of making a link between cause and effect without knowing how the actors interpret the social world (Saunders et al., 2009, p. 126). Hence, induction is able to take those factors into consideration, as it is an approach particularly applicable for social sciences. It includes and analyzes the context as well (Yin, 1993).

Despite the distinction into explanatory, descriptive and exploratory, case studies can either be single or multiple case studies (Yin, 1993, p. 5). Since two different companies are used, this study can be classified as a multiple-case study and in more detail, as a comparative case study. In a comparative case study the same questions are asked in more than one firm, in order to compare dimensions and constructs across research units and systemize levels of variables (Ghauri & Firth, 2009, p. 33). This requires a qualified selection of the case companies. Another distinction can be made between embedded and holistic case studies, where an embedded case study may use more than one unit of analysis, given several subunits (Yin, 2003, p. 42). As the unit of analysis is the firm, specifically two firms, and includes subsidiaries as well as sub-units deriving from the contextual sphere, this study can be categorized as an embedded case study.

Referring to an inductive research approach, theoretical case sampling is considered as an appropriate approach for the case selection, compared to random statistical sampling (Eisenhardt & Graebner, 2007). In contrast to extreme case sampling, the case selection took place according to intensity selection. Extreme case sampling is confronted with the challenge of generalization of the results, since it uses unusual or special cases (Saunders et al., 2009, p. 592), which "*exemplify contexts where an innovation was perceived notably as a success or failure*" (Suri, 2011, p. 67). On the strength of intensity sampling, the cases contain a high intensity and accuracy of phenomena to be examined, though not highly unusual or deviant from other case examples (Suri, 2011). Since case selection can display several dimensions, the case sampling in this study can also be identified as theory-based sampling, where the cases chosen meet profound, pre-determined, theoretical constructs related to the research interest (Suri, 2011). The ultimate objective of this case study can be labelled as a hypothesis-generating case study, which displays new theoretical insights and expands existing theory (Odell, 2001). As the research approach is inductive, findings of this study will be converted into theoretically relevant propositions.

4.1. Data collection

The empirical data contains mainly primary data derived from personal and phone interviews. Additionally, secondary data from the firms supports the cases, mostly including annual reports and scientific articles.

Data is collected through semi-structured interviews with managers of the two firms. In contrast to a structured interview, the semi-structured interview approach is not standardised and permits flexibility according to the responses of the interviewees. In particular, the semi-structured interview can be adjusted to the interview partner and the organisational context (Saunders et al., 2009, p. 320). General guiding questions were developed and incorporated in the interview guide. The inductive research approach corresponds to a semi-structured interview, as the responses of the interviewees have to be considered throughout the whole interview in order to dig deeper into a topic mentioned or to adjust the questions. Furthermore, the operationalization of variables in the interview guide are not self-contained and therefore flexiblity and adjustment must be given as this study is of exploratory nature.

In order to gain empirical data, thirteen interviews were conducted through a period of around one and a half months. Potential interview candidates were identified through personal contacts within the firms. The concept of the thesis was introduced to some key managers with the aim of forwarding the interview request to other eligible managers convenient with the topic and specific country information. During the first interviews, insights about the business and the industry as well as an impression of the firm performance and firm behaviour could be gained. At the end of the initial interviews, the interviewees were asked for further contacts. This provides the virtue of securing appropriate interview partners, as the initial interview partner knows about the questions and topics to be covered. This refers to the snowball method (see e.g. Suri, 2011). A strict boundary of topics covered in the course of the interview conduction can not be drawn. If the interviewee mentionned interesting and important aspects, also about topics he or she was not specifically responsible for, then those insights were asked about as well. In general, all participants were very collaborativ and willing to participate in the interview.

For LHT, the first interview partners were managers in the headquarters who are responsible for international mergers and acquisitions and the controlling of foreign subsidiaries. Therewith, information and knowledge about the resources and capabilities, the strategy and the international activities of the firm could be gained. In a next step, interview partners were chosen according to their country expertise. They were in the majority of the cases not the managers of the foreign subsidiaries, or no longer managers in the specific region, yet still experts of that region due to their previous and current jobs within the company. For LHT, the countries covered were the USA, UK, Belgium, Europe in general and Germany.

The interviews with LSG started with the Vice President of Mergers and Acquisitions, who gave a good overview of the company, the challenges, the strengths and the international activities. He provided the contacts of additional interview candidates, who were than asked to participate. The responsible manager for the USA was then interviewed via Skype. The Vice President for Business Development and Strategy could give insights about the European market, specifically Scandinavia and Germany. The Vice President for Operational Excellence represented a valuable source for gathering information about organizational capabilities, their creation and transfer. The interview partners could cover questions about the USA, UK, Scandinavia and Germany.

The interviews lasted on average forty minutes, depending on the emerging topics to be covered and the available time of the interview partner. Eight interviews were conducted in person and five interviews were performed via Skype. Since most of the interview partners were of German nationality, interviews were executed in the German language. Solely the interview of the area manager in the USA was conducted in English. During the interviews, notes and bullet points of key topics mentioned were written down on the printed interview guide. In order not to interrupt the interviewee during the responses, the notes were also used as a reference to come back to essential points mentioned. All of the interviews were recorded and transcribed in a next step. Table 4 shows the positions of the interview partners and the focuses of the interviews.

Table 4: Interview partners and thematic focuses

	Position	Interview Focus
LHT		
1	Manager Subsidiary Controlling	Strategy, institutional environments
2	Manager Strategy & Business Development	Strategy, institutional environments
3	Vice President Strategy PD Components	USA
4	Head of Strategy & Business Development PD ACS	UK, Germany, Europe
5	Manager Subsidiary Controlling	Belgium
6	Head of Strategy & Business Development PD ACE	Institutional environments, USA
LSG		
7	Vice President Mergers & Acquisitions	Strategy, institutional environments
8	Vice President Strategy USA	USA
9	Vice President Operational Excellence	Organizational capabilities and transfer
10	Senior Vice President Strategy	Strategy, institutional environments
11	Vice President Strategy & Business Development Europe	Europe, Scandinavia
12	Head of Commercial Sales	Strategy, institutional environments
13	Vice President of Sales & Services Europe	Europe, UK

4.1.1. Interview guide and operationalization of constructs

For each of the interviews, a printed guide with the main questions was prepared. Depending on the interview partner, the sub-questions were always slightly modified. The first question was to a greater or lesser extent the same for all interviewees and concerned the capabilities and skills of the firm, which make the firm competitive and different from its rivals.

The operationalization of the constructs defines the transformation of variables included in the research questions into empirical data by means of adequate interview questions. Construct validity is crucial for the quality of the findings, as it ensures objectivity through the establishment of appropriate measures for the constructs and variables studied (Rowley, 2002). Guiding questions can broadly be divided into questions about the firm itself, the strategy, capabilities and competitiveness. Additionally, information about their international activities in general was gathered in order to be able to create a picture of their foreign affiliates. The other types of questions were related to the institutional environment of the home country and the host countries. Emphasis was put on the influence of differing institutional environments and how it affects decisions and strategies of the firm. Specific action plans of the firms were asked about in order to find out how the firms react to institutional differences and cope with the variation. The spheres of Hall and Soskice (2001) were mentionned to the interview partners in a comprehensible manner and enquired about their importance and influence for the business activities. However, since both companies are part of a large aviation group, the finance sphere of the VoC literature was merely neglected in the interviews, since funding occurs through internal financing from the holding company, which is the sole shareholder of both companies. In line with that, due to the affiliation of LHT and LSG to a corporate group, it is necessary to control for that factor during the analysis and for the interpretation of the results.

Interview partners who specifically gave information about the firm itself from a headquarters perspective were asked about the institutional advantages or disadvantages of the home country environment. Furthermore, interest lay in the roots of their capabilities, which enables them to provide a competitive product and become market leader in their industry. The topic of know-how creation and know-how transfer was covered as well. This led to the question of the importance of the subsidiaries for creating and providing capabilities if applicable. Questions about the institutional environment of the subsidiaries and how it affects the organizational capabilities were included.

If further information was needed during the analysis of the gathered data, the respective interview partners or other company employees were contacted again via mail and asked to provide additional material or explanations. No further interviews however were conducted, since it concerned very specific topics which could be covered by answering a few questions via mail or by receiving internal information material about the projects concerned.

The guiding questions for the interviews can be found in the appendix. Questions for the interview partners were adjusted according to the field of expertise of the interviewee. Some questions and terms were more explicitly explained during the interviews. The development of the interview guide included the operationalization of the constructs and variables derived from the research questions. This proceeding helps to ensure the construct validity and increases the quality of the empirical data gathered.

4.2. Data analysis

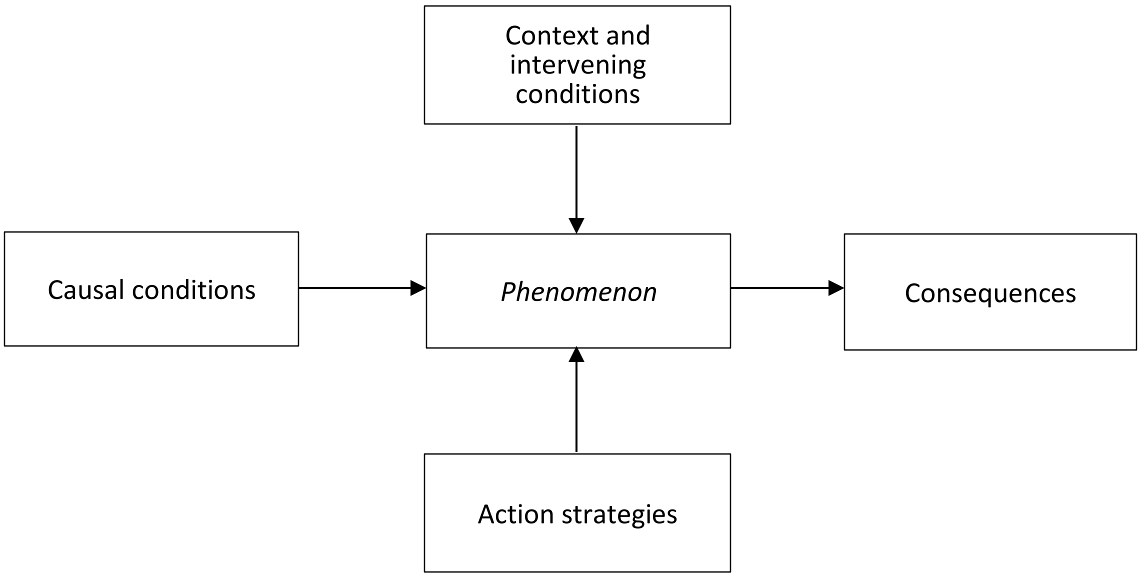
The analysis of the transcribed interview data starts with a within-case analysis. The aim is to explore the single firms as discrete entities (Eisenhardt, 1989) and to detect connections and patterns within the respective units of analysis. Cross-case analysis was applied in a next step in order to compare the two firms. The advantages of cross-case analysis are two-folded. First, it increases the generalizability of findings. And second, it provides a deeper understanding and justification, if two settings are examined (Miles & Huberman, 1994, p. 173). The two advantages of cross-case analysis cannot be seen discrete from each other, but moreover, a profound explanation based on cross-case analysis serves as a basis for generalizability (Miles & Huberman, 1994, p. 173).

Defining the unit of analysis is crucial for case study research (Yin, 2003, p. 23). The unit of analysis forms the basis of the case study and the research questions should only correspond to the unit of analysis. Examples are individuals, events or organizations (Rowley, 2002). Here, the firm represents the unit of analysis. Additionally, sub-units are examined as a response to the necessity of including contextual insights as well.

The variables of interest, operationalized through the interview guide, were then coded. Coding refers to the classification of data. In other words, coding describes the process of converting particular text passages into codes and categories, which are then compared and tested throughout the interviews. During this process, the codes will be refined and adapted according to the empirical data (Jenner, Flick, von Kardoff & Steinke, 2004, p. 255). The data has to be organised conceptually which is done by enduing codes to the transcribed data. The codes can then further be aggregated at various levels in order to combine the analyzed data to the research questions (Ghauri, 2004).

The coding scheme is, on the one hand, based on theoretical concepts, deriving from the research questions and the theoretical background. Hence, the first order constructs are predefined but still offer enough space and flexibility for new theoretical insights. Coding and categorizing the coping mechanisms of the firms, on the other hand, follows partly an open coding process, which is still in line with the inductive approach of the study. The coding procedure can most closely be classified as thematic coding since coding groups were determined beforehand. Thematic coding can be used for comparative case study analysis based on semi-structured interviews (Flick, 2010, p. 402). This coding approach is suitable if the study is of inductive nature, but theoretical constructs are still included (Flick, 2010, p. 407). Figure 3 shows the coding paradigm according to Jenner et al. (2004, p. 272).

Figure 3: Coding paradigm



As Miles and Huberman (1994) suggest, a list of codes was developed before starting with the analyzing process of the empirical data. This is helpful in order to connect the data with the research questions and the concepts the author wants to get out of the study (Miles & Huberman, 1994, p. 65). However, the list is subject to change as a response to new insights, which are generated from the data analysis. Codes were not predefined for coping mechanisms of the firms, as there is no underlying theoretical assumption about how the firms cope with institutional variations. The coding paradigm in figure 3 outlines the categories, which condition the phenomenon and the consequences in a final step. The main causal condition is the institutional environment. But also the firm strategy in general and the creation of organizational capabilities have to be taken into account. The phenomenon includes dealing with institutional differences throughout the international activities of the two firms and the specific coping mechanisms represent the consequences. Table 5 shows the coding scheme including categories and codes, a short description and the relation to the respective research question.

Table 5: Illustrative coding scheme

Codes	Abbreviation	Description	Research Question
STRATEGY	STRAT		
ST: Firm strategy	STRAT-FIRM	Characteristics of the firm	1.1
ST: Competitors	STRAT-COMP	Industry competitors and what distinguishes the firm from competitors	1.1
ST: Internationalization	STRAT-INT	What determines locations decisions and entry modes?	1.1, 1.4
ST: Headquarter-subsidiary relationships	STRAT-HQSUBS	Description of HQ-subsidiary relationships for organizational characteristics of the firm	1.2, 1.3
ST: Firm-level factors	STRAT-HIS	Considers factors such as long business experience, size, product specificity and corporate culture	1.1, 1.4
ST: International success	STRAT-SUCC	How can the international success of the firm be described?	1.2, 1.4
ST: Differences home and host country	STRAT-COUNT-DIFF	Includes other influencing factors than institutions	1.1
INSTITUTIONAL ENVIRONMENT	IE		
IE: Home country embeddedness positive	IE-EMB-POS	Advantages and implications for the firm	1.1 - 1.3
IE: Home country embeddedness negative	IE-EMB-NEG	Disadvantages and implications for the firm	1.1 - 1.3
IE: Host country differences	IE-HOST	Differences and implications for the firm	1.2, 1.3
IE: CME environment positive	IE-CME-POS	CME host country environment and positive influence on the firm	1.3
IE: CME environment negative	IE-CME-NEG	CME host country environment and negative influence on the firm	1.3
IE: LME environment positive	IE-LME-POS	LME host country environment and positive influence on the firm	1.3
IE: LME environment negative	IE-LME-NEG	LME host country environment and negative influence on the firm	1.3
IE: Institutional differences	IE-ID	How the firms perceive the institutional differences in general	1.1, 1.4

Table 5: (Continued)

Codes	Abbreviation	Description	Research Question
ORGANIZATIONAL CAPABILITIES	OC		
OC: Sources and characteristics of OC	OC-SOURC	In connection with the home country, if applicable and includes strengths of the firm	1.1, 1.2
OC: Transfer of capabilities	OC-TRANS	How are capabilities transferred?	1.2
OC: Choice of transfer of capabilities	OC-TRANS-CHOIC	Which and to what extent are capabilities transferred?	1.1, 1.3
OC: Adaptation of capabilities	OC-ADAPT	Ability of the subsidiary to absorb and adjust	1.3, 1.4
OC: Challenges of transfer	OC-CHALL	Which capabilities are hard to transfer and where are other challenges?	1.3
OC: Significance of subsidiaries for OC	OC-SUBS	What is the role of the subsidiary for organizational capabilities compared to the home country?	1.1, 1.2
OC: Insignificance of inst. environment	OC-INSIG	Refers to the ease of transferring organization capabilities	1.1, 1.3
COPING MECHANISMS	COP-MEC		
CM: Motives	COP-MOT	Where does the need for coping mechanisms come from?	1.3, 1.4
CM: Characteristics	COP-CHAR	Description of the characteristics in relation to the motives	1.3, 1.4
CM: COP for LME disadvantages	COP-LME	Negative aspects of LME for the firm and their response to it	1.3, 1.4
CM: COP for CME disadvantages	COP-CME	Negative aspects of CME for the firm and their response to it	1.3, 1.4

4.2.1. Reliability and validity of the data

Reliability and validity are two important issues that need to be addressed in order to increase the quality of the research (Saunders et al., 2009, p. 326). Reliability addresses the production of consistent findings and validity refers to the accurate measurement of what the used methodology is supposed to measure (Saunders et al., 2009, p. 156).

When using a comparative case study design, external validity, or generalizability, does not necessarily require the development of a general theory applicable to every new sample. But generalizable answers to the specific research setting must be ensured (Saunders et al., 2009, p. 158). A time horizon of more than one month for conducting the interviews made data collection and initial interpretation possible simultaneously. Therefore, the reliability of the data could be increased (Morse, Barrett, Mayan, Olson & Spiers, 2002, p. 18), since missing data could still be gained or necessary confirmation of already gathered data could be ensured. Furthermore, if inconsistencies during the analysis of the transcribed interviews occurred, respondents were contacted again via mail in order to clarify some questions. Certain questions were asked to all participants in order to retrieve consistent findings. Reliability of the data was also increased by a three-stage process of coding the empirical data, starting with a very broad coding scheme which was adjusted and fine-grained until the final use. After the analysis was finished and the results were written down, the interview transcriptions and summaries were read through again in order to ensure reliability. If only little support for a phenomenon was found, it is mentioned accordingly.

This three-stage process of coding also increased the validity of constructs used. During the interviews, technical terminology was neglected or explained in detail in order to ensure the understanding of the interviewee. This proceeding increases the validity of constructs used in this thesis. The use of confirmative and opposing literature can help to increase the validity (Eisenhardt, 1989, p. 533), which is especially relevant for the inductive approach of this thesis. Confirmative findings increase the validity and opposing findings to existent literature can refine and extend theory (Eisenhardt, 1989, p. 542). Cross-case analysis helps to increase the generalizability, since findings are applicable for one setting, but not for the other (Miles & Huberman, 1994, p. 173). This increases the validity of the data. After the coding of the interview data has been finished, a summary of each of the interviews was compiled. The summary included the major statements of the interviews according to the coding scheme. For a further abstraction of the results, similar responses were bundled and contextualized in a next step. Based on that, the findings were elaborated.

5. ANALYSIS AND RESULTS

The following section outlines the findings based on the empirical data from the interviews. The analysis identified similarities and differences in the way both firms manage institutional differences. Starting with a summary of the interview findings relating to competences and organizational capabilities of the firm, the analysis also includes the influence of the home country embeddedness for the creation of organizational capabilities. In a next step, the challenges for the transfer of organizational capabilities to LMEs and CMEs are described, which also includes the firms' responses and solutions to it.

5.1. Findings from LHT

Lufthansa Technik was identified as a centrally organized firm, with the headquarters located in Hamburg, Germany. Research and development exclusively takes place in Germany and the contribution of subsidiaries to the creation of new capabilities is low. A high degree of standardization is possible and led the firm to exploit economies of scale once e.g. a new and more efficient procedure for reparations has been developed. However, local adaptations are necessary due to differing national or supranational regulations, but these adaptations can be neglected as they do not require specific capabilities in the respective countries. The internationalization decisions merely depend on the location of key customers. Once a location is determined, the whole production, e.g. base maintenance or a facility to repair engines are set up there. This implies a necessary ability of the firm to transfer organizational capabilities in order to provide a high-quality product for the customer.

5.1.1. Sources for organizational capabilities

The organizational capabilities were detected to be based upon the firm's experience and a favorable institutional environment for the development of specific technological know-how and skills in Germany.

A process-oriented way of working and a very structured problem-solving approach derive from German cultural traits as well as strict corporate governance and institutions such as co-determination of the employee representatives. The good reputation of the Lufthansa brand in Germany paired with a favorable labor agreement for employees lead to a very low turnover rate of employees. Even though the strong influence of unions and the labor agreement including encompassing rights for the employees decrease the flexibility of the firm with regard to adjusting human resources in economical difficult times, the herewith low fluctuation rate creates a favorable basis for the creation of organizational capabilities. It leads to a high level of expertise of a single employee and enables the firm to conduct complex repairs and develop new procedures for reparations. The long-term working contracts and the non-existence of a hire and fire culture is beneficial for the firm since the workforce possesses extensive know-how through years of experience.

> *“The average age at Lufthansa Technik is, I think, almost 50 years. The amount of years employees are working for the firm is supposed to be double-digit. Very low fluctuation, 0,5 %, 0,7/0,8 %. That means, a high stability of experience of the staff.”* (Interview 3, LHT, VP Strategy PD Components, own translation).

Furthermore, the sphere of industrial relations creates stability for the firm as employee representatives have a voice in major decision-making processes. Comprehensive industrial relations prevent the firm from taking quick decisions and hinder fast change management initiatives, but on the other hand, LHT is therefore able to develop relevant in-depth knowledge. LHT was identified as technological leader compared to its peers, offering high quality-products. The ability to secure dispatch reliability for the customer is one reason that legitimizes the firm to charge premium prices. The detailed and structured process of reparations increases the reliability for the customer to put the planes into operation in time.

Germany was mentioned as the ideal country for sourcing skilled employees such as engineers and mechanics. The dual educational system provides a broad range of qualified applicants.

> *„I would say, in Germany we have an advantage regarding education. The educational system let highly-skilled employees starting a job and in comparison to others, in the USA for example, I don’t know, but I think they do not have this kind of education, and they are dependent on internally trained labor. That means continuous instruction and guidance is necessary. Here, we have more individual responsibility.”* (Interview 4, LHT, Head of Strategy and Business Development PD ACS, own translation)

The aviation cluster in Hamburg provides possibilities to collaborate with original equipment manufacturers, universities and customers. LHT is part of inter-firm collaborations, although it was mentioned that the protection of intellectual property rights is getting more and more important nowadays. Therefore a lot of attention is paid to an unwanted sharing of information and knowledge.

Process optimization gets crucial due to an increasing competitive situation and the need to optimize capacity utilization. Interview respondents mentioned the German cultural traits such as detail-orientation and structured thinking as advantageous to develop process management skills. Hence, LHT possesses capabilities to reduce costs and get more efficient through capacity utilization and can outperform their competitors in that way.

> *"Qua history, I think we are very very good in processes. We have a very strong and detailed process landscape, partly legally necessary, partly German engineers. There are several positive inputs and process-sided we are very detailed. That distinguishes us. And additionally topics such as reliability."* (Interview 1, LHT, Manager Subsidiary Controlling, own translation)

A favorable condition for LHT, besides the above-mentioned beneficial institutions available in the home country, is the belonging to an aviation group. LHT does not depend on external investors, but the Lufthansa Group is the single shareholder. With regard to the development of new skills, it is beneficial for the firm that the Lufthansa passenger's unit has the home base in Frankfurt. Therefore, the mechanics are equipped with a large fleet of own airplanes and the technological know-how can be developed and optimized through an internal dispatching.

Summarized, the favorable educational and training system is beneficial for LHT, since it provides highly-qualified workforce for the MRO industry such as mechanics and engineers. The sphere of industrial relations, and here e.g. the institution of co-determination avoids making unqualified decisions and can lead to a high quality of the product. Long-term working contracts, based upon the strong influence of unions, create a very low fluctuation rate and a high level of knowledge of each employee. Inter-firm relationships are created in the aviation cluster in Hamburg serving as one justification why research and development exclusively takes place in Germany. Paired with a structured manner of working, a clear governance structure and process- and detail-orientation, LHT is identified to display a high level of location-bound organizational capabilities. The firm-specific advantage derives to a big part from the institutional context in the home country.

5.1.2. Transfer of organizational capabilities

The firm was reported to be able to offer the same quality of products throughout the globe. This implies the necessity for the firm to transfer the location-bound organizational capabilities and develop coping mechanisms in order to balance institutional differences. LHT has found ways to manage different institutional endowments. Interview answers showed that LHT is flexible enough to leverage country-specific advantages and to successfully respond to detrimental institutional spheres of the host country.

The classification of LHT into product divisions instead of geographical regions is found to be beneficial for the organization. Despite adaptation due to deviant national regulations, there is little need for local responsiveness of the PDs. Thus, due to the product specificity, each of the PDs has different requirements for their production and the individual PDs can therefore develop slight variations of the coping mechanisms of LHT according to the severity of institutional deviations for the specific capabilities needed. One example is the exchange of technical staff between the local units and the headquarters. Only PDs with the need of conducting highly complex reparations benefit from that method. Product divisions which conduct more standardized procedures use operating sheets as a main tool for knowledge transfer.

Core processes are defined by the HQ and imposed on the concerned units. Furthermore, there exists a very stringent quality management system and defined KPIs. The affiliates need to report and fulfill the required KPIs and the management of the PDs decides upon the level of control of the subsidiaries. The product division Landing Gear, for example, is able to use operating sheets to a large extent throughout their units and the affiliates have to stick to them. This PD can largely transfer know-how through operating sheets since no diagnosis of a technical problem is included, which requires in-depth technical skills. In case of severe problems, an emergency task force is sent out from the headquarters in Germany.

The creation of new skills, innovations and know-how transfer follows a top-down approach from the HQ to the respective affiliates abroad. There is barely any best practice sharing and the importance of the subsidiaries for product development and the creation of capabilities is negligible. Only in exceptional cases acquisitions are conducted with the aim of acquiring competences. Expatriates on the management and operational level are then sent to manage the post-acquisition integration.

Expatriates serve as a main implemental for the transfer of organizational capabilities, including greenfield and brownfield investments abroad. The advantages of sending expatriates include hard factors and soft factors. Expatriates are responsible for transferring know-how to the affiliates. They serve as a connector between the headquarters and the subsidiaries, which increases the control of the HQ over the affiliates since the managing director of the foreign unit needs to report directly to the HQ. Managerial expatriates are hold to shape the affiliate through a German managing style and the operative expatriates are responsible for the transfer of technological know-how and the compliance to quality standards. Expatriates were also reported to enable the transfer of the corporate culture, since they have been working in Germany for many years before they are sent abroad. The corporate culture of Lufthansa is, amongst others, characterized by a strong commitment of the employees leading to a high responsibility and motivation of the individuals for the successful completion of a task or a customer order.

The positive brand image of Lufthansa, reflecting German values such as quality through high engineering skills, reliability and a clear-structured way of working, leads to acceptance for the top-down transfer of capabilities and increases the willingness of implementation in the foreign units. As a rule, the subsidiaries carry the name *Lufthansa* in their company's name representing a positive signal for external stakeholders abroad.

Depending on the product division, foreign technical staff is sometimes sent to Germany to undergo training and to get acquainted with the corporate culture in the home country. However, if the production process can be secured through detailed operating sheets developed by the headquarters, the training takes place locally. Hence, the level of what can be referred to as short-term impatriation depends on the characteristics of the production of the PDs.

One important factor for the possibility of a successful transfer of organizational capabilities derives from the industry. FDIs, greenfield or brownfield, are planned to be long-term investments. Greenfield investments take years until they are build-up and work to full capacity. Therefore, a gradual transfer of technological know-how is arranged. The same applies for brownfield investments as the organization respects the complexity of their business and does not require an immediate transfer at once. The time factor was found to facilitate the transfer of organizational capabilities and affects the ability of the firm to cope with institutional differences positively.

5.1.3. Challenges in CMEs and coping mechanisms

The challenges for LHT, deriving from the institutional context in CMEs, do not only refer to institutional differences, but also to disadvantages for the firm in the home country. Therefore, coping mechanisms within Germany are included as well. However, most of the challenges and the coping mechanisms are very similar between Germany, as the prime example of a CME, and other CMEs.

The biggest disadvantage for doing business in CMEs mentioned by the interviewees was the rigid labor market. In Germany, the Lufthansa labor agreement includes a favorable termination clause to employees. Despite the advantages for the development of capabilities due to a low fluctuation rate, the disadvantage of a rigid labor market is related to a more difficult optimization of capacity utilization since the abolition of resources is barely possible on short notice. LHT developed two coping mechanisms. First, the firm uses outsourced staff in order to respond to economic downturns quickly. Second, LHT employees possess a broad education and further skills are trained to them internally. Therefore, workforce can execute a broad range of tasks and can be shifted to other positions. Since the risk of poaching in CMEs is comparably low (Hall & Soskice, 2001), that solution works in these economies. If one production line is low on customer orders, the staff can be moved internally and take over other tasks. The number of outsourced personnel can be adjusted if necessary and the remaining internal staff is able to conduct a broad range of tasks due to the broad training and experience.

The extensive network of industrial relations and the power of the unions, resulting for example in co-determination, create a lot of bargaining costs for the firm and make change management initiatives more difficult. Triggering innovations and product development top-down decreases the complexity of industrial relations' bargaining in the respective CMEs. The focus is then mainly on the German employee representation and local ones get less involved. Once a decision is made in the HQ and the employee representation agreed to it, it is easier to transfer it to the subsidiaries in CMEs. In Belgium for example, there exists no work council and therefore no co-determination, what makes the transfer and adoption in the affiliate in Brussels easier.

The size of the foreign affiliate in CMEs determines the extent of coping mechanisms. Belgium, as an example, was reported to be a very small subsidiary with an annual revenue of around 10 to 13 Mio. €. Nevertheless, the Belgian subsidiary reports profits every year. The small size makes the unit more flexible to necessary adjustments. The commitment of the staff is high, since the subsidiary is characterized as a family-like business, which allows taking short-notice customer orders as well. Individual responsibility, induced by long-term working contracts, leads to a self-starting mentality and less control mechanisms are required. Small subsidiaries are admitted to make adjustments with regard to the scope of the process framework and can work out local adaptation if necessary, not however concerning the quality management system. The size of the foreign affiliate is not a specific coping mechanism, but serves as a moderator for the transfer of organizational capabilities. A small size of the foreign affiliate was therefore found to positively influence the transfer of location-bound organizational capabilities due to more flexibility and commitment of the workforce.

5.1.4. Challenges in LMEs and coping mechanisms

As representative for a liberal market economy, the following results mostly refer to the USA. Information about the UK was gathered as well, but revealed less challenges regarding institutional differences and the extent to which coping mechanisms are necessary.

In contrast to a rigid labor market in CMEs, the fluid labor market in the USA causes major challenges for LHT. Additionally, the educational system does not provide all necessary skills needed and further internal training is required. If employees possess attractive skills for the competitors, they are more willing to switch the employer than in Germany. Hence, LHT has to develop mechanisms to retain staff and key personnel, which is especially attractive for other firms. One way of managing the problem is to provide only very specific training for a narrow range of tasks. The employee gets less attractive for other companies and poaching can be prevented.

> *„Thus, I think, the Hamburg-based mindset, an employee needs to possess a broad set of skills in order to extensively appoint tasks to him – if there is a low utilized capacity, then he can do something else and that is a risk abroad, because someone who can do a lot of tasks, leaves the company easier and is valuable for others. That leads us to say OK, let us train him for very specific tasks which can be learnt faster and the employee is cheaper and less interesting for competitors."* (Interview 3, LHT, VP Strategy PD Components, own translation)

The corporate HR governance leaves the responsibility to develop solutions up to the subsidiaries. There exists corporate HR governance for the whole firm, but the HR strategy and sourcing strategy are developed locally. Product divisions as characteristics of the organizational structure help to identify the skills which are missing and specific trainings can be developed accordingly. LHT sources more staff with a lower skill level in the USA compared to Germany instead of highly skilled employees.

The possibility for the individual to bargain about wages, due to the non-existence of collective bargaining rounds between employee representatives and the employer's side, induces high bargaining costs. The management needs to decide whether to accept that request or let the employee switch to another company. Therefore, LHT focuses on non-financial fringe benefits for the employees and puts emphasis on developing the same positively perceived corporate culture in the foreign subsidiaries as in the HQ through employer branding. Employees should feel comfortable in their working environment. One successful example based on the transfer of the Lufthansa corporate culture is the willingness of a larger number of employees to move within the USA than anticipated. Due to the re-location of a subsidiary within the USA, the employees could either leave the company or move. The social aspects of a German corporate culture were very appealing for the concerned employees and that is why the concerned staff decided to move instead of leaving the company.

> *"During this time, during the transfer, we did not have to release one single employee. The employees have either moved as well or were offered another position in the remaining organization. And I realized, that despite the possibilities offered through hire and fire, there are also economically meaningful solutions to be realized, compatible with our German social understanding."* (Interview 6, LHT, Head of Strategy and Business Development PD ACE, own translation)

The Lufthansa brand is important for the external stakeholders as an indicator for high quality standards and reliable products and for the internal stakeholder as an indication for a preferable place to work. One way of managing the drawbacks of a fluid labor market is through transferring the German corporate cultural values, such as collaboration and a strong identification with the employer.

Another mechanism for LHT to overcome the disadvantage of a different educational system in the USA is an intense collaboration with government agencies. LHT requires a highly qualified workforce, which is secured in Germany through the educational system but is not available in the USA. Since the organizational capabilities are to a big extent location-bound, LHT needs to find solutions in order to successfully set up an operation in a LME. The recent FDI project in Puerto Rico is one example. The US government attracted LHT to open a MRO facility in Puerto Rico, a territory of the USA (Puerto Rico Report Inc., 2012). The geographical location is advantageous for market-seeking. In order to even out disadvantages deriving from the institutional environment, such as the educational system, the government admitted to arrange educational institutes in order to provide the skills needed.

The PD Aircraft Components makes extensive use of exchanging employees. On the one hand, it facilitates the know-how transfer and on the other hand it creates a better collaboration between the HQ and the subsidiaries. The intense top-down approach runs into mischief to create a fragile HQ-subsidiary relationship and can hinder a successful transfer of know-how. A recent project on expanding the business activities in North America focuses on personal contact between local employees and Germany-based staff. Around 10 percent of Germany-based employees are sent to the USA and 10 percent of US-based employees are send to Germany for a period of a couple of weeks. The aim is to facilitate the transfer of organizational capabilities by lowering the barrier existent between locals and employees from the headquarters.

5.2. Findings from LSG

Compared to its competitors, LSG is characterized by a large network of international affiliates. In 2013, the company ran over 200 operations worldwide. The organization is divided into regions. Germany, Europe including Middle East, Asia and Asia Pacific, Africa, North America, Middle and South America represent the geographical regions. The size of LSG is also related to the affiliation to the Lufthansa Group, which secures a certain amount of sales quantity and gives the firm access to internal financing sources. The single shareholder for LSG is therefore the Lufthansa Group. The size of the firm is additionally relevant as it serves as a basis for investments in quality management and business development since the generated fix costs for it can be allocated to a big volume of units produced.

Interview respondents did not specifically identify LSG as a German company, but rather as a multinational firm with a very strong local focus. The HQ-subsidiary relationship can be described as decentralized with local operative responsibility and also responsibility for the financial results.

> *"LSG is set up very locally. That means that the management, the German board, permits a lot of freedom in the single regions, so as to let the regions act independently with the respective individual culture. Thus, we would not be as successful, if we rolled out to the Asian or Latin American market with German mentality."* (Interview 13, LSG, VP Sales and Services Europe, own translation)

However, to a certain extent the firm benefits from its German home base and uses the advantages deriving from the German institutional environment for certain fields.

> "*In some markets it is an advantage to be a German company, because one equalizes Made in Germany with it, hence quality and structure, that is sometimes an advantage."* (Interview 11, LSG, VP Strategy and Business Development Europe, own translation)

5.2.1. Sources for organizational capabilities

The high number of internationally located subsidiaries paired with firm experience provides a large knowledge base for LSG. The size of the firm positively affects the financial resources and makes large investments into infrastructure and means of production possible. Resources like location, infrastructure, material and experience were mentioned as facilitators to create distinctive firm capabilities.

> *"There are small caterers (…) but they do not have the extensive network and that is what distinguishes us from others. And many times they do not possess the resources in order to invest in specific systems and processes. For example quality processes, but also development processes, they do not have that to such an extent."* (Interview 10, LSG, SVP Strategy, own translation)

Despite its size, LSG is able to react comparably flexible to changes in the market, which is facilitated by the use of local management and a rather lose HQ-subsidiary relationship, at least in this respect. Due to the global network, one of the strengths of the firm is the skill to set up the production and serve customer needs extremely fast around the globe. Customers can be offered a bundle of services on each of the locations. Hence, besides the flexibility, LSG is also characterized by its agility. Agility serves as a basis for innovations and helps the firm to constantly develop new products and adjust to market requirements. One example is the growing importance of onboard retailing as a new product segment, especially since conventional airline catering revenues in the developed regions are stagnating. Thus, in order to generate higher revenues, LSG needs to expand its product portfolio. The development of onboard retailing know-how took place through a joint venture with an Irish company, which is already specialized in offering services for onboard retailing. The firm is now focused on the Irish and British market in order to develop a new skillset, since the market for onboard retailing is already more mature than in other countries. This example shows that LSG is able to develop new capabilities abroad, integrate the knowledge gained and distribute it to other markets afterwards. But innovations and product development are still steered and incentivized centrally by the headquarters in Germany. The central functional department decides about new programs and allocates resources to the subsidiaries for capabilities development. The process of creating new capabilities is a mixture of top-down and bottom-up. Especially regarding quality management, there exists one central system which is imposed upon the subsidiaries. With the help of strict reporting standards it is ensured that all affiliates around the globe stick to the quality management system.

Whereas the quality management system does not allow local adaptation, the subsidiaries usually enjoy a certain degree of freedom to implement programs and realize company guidelines. For example, production processes are not standardized and the production in the UK looks different than the production in Germany. The interview partners mentioned that in most cases there is space for local adaptation and the HQ management realizes the need for variations throughout different countries. The decentralized organizational structure of the firm enables the firm to respond fast to market changes and serves as an antecedent for the firm’s flexibility and agility.

The organizational capabilities of the firm were only partially identified as embedded in the home country. Certainly, the focus on process improvement and strict decision-making process, rooted in the governance structure, prevents the firm taking premature decisions. And individual traits such as a high level of discipline, individual responsibility and thoroughness were identified as German traits, which are beneficial for the firm and get incorporated.

> *“There are certain advantages, because we benefit from German virtues, thoroughness etc., certain standards, thus a basic level of perfectionism.”* (Interview 12, LSG, Head of Commercial Sales, own translation)

Especially process management and efficiency are emphasized by the headquarters and seen as German strengths, which also distinguishes LSG from its competitors. Although the firm does not benefit from characteristics of the German economy such as affinity to engineering and highly skilled labor, there exists a functional division called Operational Excellence that is located in the headquarters in Germany. This division benefits from a structured and process-oriented way of doing business and slightly better skilled employees, contingent on the institutional sphere of vocational training and education (Streeck, 1997). Standards and key processes are developed in that division and rolled out globally.

> *"And this process orientation and perhaps also the attention to detail and the discipline, that characterizes us and that is certainly an advantage compared to other firms."* (Interview 10, LSG, SVP Strategy, own translation)

Due to the multi-faceted methods of the firm with regard to the handling of organizational capabilities and no consistent top-down approach, LSG barely uses expatriates. The affiliates of LSG are run by local management and expatriates are sent only for exceptional cases, e.g. when special post-acquisition integration is needed.

An essential strategy of LSG to acquire new skills is based on the establishment of joint ventures and acquisitions. Acquisitions and the creation of joint ventures are conducted either due to growth reasons as market entry strategies into difficult markets or to acquire new skills. Hence, a successful and diligent post-merger and acquisition integration is fundamental for the firm. The integration process is standardized and follows the same pattern throughout all acquisitions. A project team will be sent to the affiliate and secure reporting standards and the implementation of restructuring measures.

If new capabilities are developed on the subsidiary level, they get transferred back to the headquarters with the help of the project team and potentially distributed globally. However, not all capabilities of an acquired firm are of interest for the whole company and will stay local. One example is the acquisition of a family-owned sandwich producer in the USA. LSG wants to expand its business in the USA for non-airline catering. No restructuring or change of management took place since the knowledge about production and distribution is only valuable for that specific region. The integration approach is therefore a symbiotic one and not all capabilities of an acquired firm are automatically transferred back to the headquarters. Another solution of LSG to gain new competences and skills is the collaboration with other stakeholders, e.g. suppliers, for specific projects. However, there was no institutionalized pattern of inter-firm collaboration between LMEs and CMEs detected.

In sum, the level of location-bound organizational capabilities is low. An explanation derives from the industry characteristics LSG is operating in. The industry requires a lower level of skilled workforce compared to the MRO industry. Hence, the firm-specific advantage is based on some specific home country characteristics, such as a strict process orientation enabling to create a well-structured quality management system and a slightly higher educational level compared to LMEs. But what is more, the FSA is enriched by the ability to respond to local needs and to manage a decentralized organization. Despite the large size of LSG, the firm is still able to act flexibly. Hence, the relation between the FSA and the institutional context is lower compared to LHT.

5.2.2. Transfer of organizational capabilities

Referring to the decentralized structure and a mixture of bottom-up and top-down processes, the transfer of organizational capabilities does not follow one generic logic. Top-down initiatives are driven by the headquarters, such as the stringent quality management system including detailed reportings. In general, innovation processes are initiated centrally and production processes are steered locally. Operational excellence programs were characterized through a very narrow range of adjustments for the local subsidiaries. A newly created operations board includes representatives from all geographical regions and decision-making takes place multilaterally. This initiative should facilitate the local implementation for the subsidiaries and create a stronger binding across foreign units. Furthermore it accommodates for the necessity of local adaptation.

One major method for the transfer of capabilities is the use of best practices. Best practices are exploited in an institutionalized manner. Central functional units are collecting best practices whenever new initiatives are needed, verify them and finalize the features to distribute them globally as benchmark. This central unit is also responsible for developing a new standard in case no best practice can be found on the subsidiary level. There is no specific pattern throughout the international affiliates concerning the creation of specific capabilities or best practices. Hence, there is no region or subsidiary that is constantly more efficient in creating new organizational capabilities. Two factors were mentioned in the interviews which positively influence the creation of new capabilities. These are the size of the foreign affiliate and a strong commitment of the local management. Large subsidiaries were reported to display a higher level of capabilities creation. One explanation might be the larger scope of resources available to the subsidiary.

Besides financial resources, also human resources create a broader range of inputs for ideas and the possible creation of new skills and solutions. The commitment of the local management is another determinant mentioned with regard to the creation of capabilities. If the local management is highly motivated and displays an inspirational leadership style, input for new ideas of the concerned subsidiaries was reported to be higher compared to other affiliates.

In sum, capabilities which are rather bound to the home country, or developed through to the home country institutional capital, are imposed from the headquarters to the local affiliates. Additionally, LSG exerts best practices and multilateral decision-making boards to incorporate and source new ideas and ways of doing business from the subsidiary level. Expatriates are mainly eliminated and the use of local management is doable due to the lower level of location-bound OC.

5.2.3. Challenges in CMEs and coping mechanisms

CMEs were identified as countries providing slightly better skilled employees and therefore require less internal training. As major challenges for doing business throughout coordinated market economies, labor issues and union involvement were mentioned. For example, a restructuring project in Denmark failed due to the pressure of the union at the airport. The union at the airport did not only include the industry of airline catering, but also ground handling and security. Therefore the bargaining power of the union was big enough to threaten with strikes at the whole airport and LSG was forced to change its strategy. Scandinavia represents a challenge in terms of union involvement preventing fast change management initiatives. Strict labor legislation hinders the abolition of human resources, leading to diligent investment decisions. Additionally, the high costs of labor represent another disadvantage of doing business in Scandinavia. LSG minimizes the detrimental influences of the Scandinavian institutional environment through domestic institutional arbitrage. Domestic institutional arbitrage refers to the possibility for arbitrage within an economy. The firm outsources employees not only with the aim of reducing costs, but also in order to shatter the influence of one single union. If the employees and outsourced personnel are organized in different unions, their power is limited. The percentage of external service providers is particularly high in Finland, for example. Another coping mechanism is to transfer the production, which normally takes place close to the airport and the customer, to more distant places. The re-location of the production only takes place within the borders of the respective country. Malmö is one example for domestic labor arbitrage for production and delivery for customers in Stockholm. However, disadvantages of union involvement and higher labor costs must be considered in the light of the competitor's situation in the concerned country. Since there is no major local competitor in Scandinavia, who is more acquainted with the institutional environment, foreign competitors serving the Scandinavian market face the same hurdles. Thus, the scope of the challenges due to institutional differences with regard to success in foreign markets also depends on the competitive environment in the respective country. If the host country's business environment does not include local competitors but only international competitors, LSG perceived institutional differences as less detrimental since the liability of foreignness applies to all competing foreign firms.

As there is little room for cross-border institutional arbitrage due to the necessity of setting up the whole production close to the customer, the commitment and skills of the local management become crucial. The success of projects depends amongst others on the relationship of the local management with the concerned unions.

> *"We also achieved results and progress by, for example, bringing in the unions and convince them of necessary changes. That worked out pretty well in some respects. Well, in the beginning we had to virtually extort them. But then they joined in."* (Interview 10, LSG, SVP Strategy, own translation)

5.2.4. Challenges in LMEs and coping mechanisms

The USA represents a prime example of a liberal market economy and displayed the toughest challenges for LSG compared to other LMEs. According to the five spheres of Hall and Soskice (2001), the firm-employee relation and the provision of skilled labor are causing the biggest problems for the firm.

A fluid labor market and the concept of hire and fire lead to positive and negative outcomes for the business in the USA. Labor regulations and a less rigid employee protection represent one of the major differences between CMEs, including Germany as the home country of LSG, and LMEs. The affiliates in the USA are more easily able to adjust the number of employees according to the demand. This creates more flexibility and decision-making is usually faster, since resources can be abolished rather easy. One of the major disadvantages of LSG in Germany, rooted in the company-wide labor agreement and the inclusion of a non-termination clause for employees, is not applicable to the affiliates in the US and therefore leads to a faster pace of change. There is less resistance to change, also caused by lower union involvement and the non-existence of co-determination. However, for major decisions, the subsidiaries need to stick to the company's governance structure and therefore advantages cannot be fully exploited, as compared to US competitors.

At the same time, the fluid labor market presents a major burden for the transfer of organizational capabilities. LSG is facing a high turnover rate of the employees, caused by several factors. The right for the firm of hiring and firing also enables the employee to leave the company easily.

> *"The question about labor, I think it is, currently I would see that as a huge disadvantage, because the economy is stronger here in the US and we do have the right to hire and fire and the employee also has the equal right to leave. There is not as much of a contractual or same of lifetime expectations on people to stay. We have an incredible high turnover right now, especially in our hourly workforce, where people often leave for, you know, half of a dollar more per hour or less in some cases"* (Interview 8, LSG, VP Strategy USA)

Workers are more willing to switch the company compared to Germany, if they get offered only a slightly higher salary from a different employer. This fact gets reinforced through the lower importance of the Lufthansa brand image. Interviewees highlighted that the high reputation of the Lufthansa brand, which is an important facilitator for intrinsic motivation for employees based in Germany, is getting less the further the geographical distance of the subsidiary. Employees in the USA did not show an intense binding to the Lufthansa brand. The lack of intrinsic motivation represents a challenge for LSG. Especially during economic growth periods, the fluctuation rate further increases in the USA, since competitors are able to pay a higher salary.

The educational system in the USA, on average, produces lower skilled workers for LSG. The job profile of the workforce does not require highly-skilled employees. The problem of poaching of employees is less relevant for LSG, since the internal trainings provided by the firm do not necessarily make them attractive to competitors due to the low-technology industry LSG is operating in.

Coping mechanisms to fight the high turnover rate, which hinders the creation and the efficient implementation of capabilities, include training and development programs for employees. Hence, the training programs are not only with the aim of providing them with specific skills needed for the job, but also in order to increase the bond between LSG and the employee. There is a so-called buddy program for new employees. One person is responsible for the integration of new employees into the firm and the corporate culture. After one year, a retention bonus for the buddy and the new employee is rewarded. There is also an induction program serving as a tool to integrate new employees with the aim of increasing employer attractiveness. In order to address different motivations to work for LSG and personal characteristics of employees, growth tracks and individual development programs are offered. Especially for self-thriving workers an important retaining measure is seen in providing them opportunities within the company to upgrade their career path. However, it was stated in the interviews that these mechanisms only work, if at least a slightly higher salary compared to the minimum wage is paid. The success of the training and development programs also depends on the commitment of the local management to represent inspirational leadership, to create a favorable corporate culture and to develop a pleasant working environment. The local management commitment gets specifically important due to the low-margin industry LSG is operating in. It restricts the firm from paying high performance bonuses or to motivate the employees through other financial incentives.

Even though the case selection in this thesis does not allow for an intense elaboration of the financial sphere of Hall and Soskice (2001), since LSG does not approach public financing but depends on financial support from the Lufthansa group, there is one major deviation with regard to financial investments compared to CMEs worth mentioning. Interview respondents mentioned the focus of US facilities on short-term financial results, which is in line with LMEs' focus on the maximization of short-term results and shareholder value (Farndale et al., 2008, p. 2008) instead of stakeholder value. Hence, they would rather improve their financial results instead of making sustainable investments into infrastructure projects or new means of production. The headquarters in Germany tries to find a compromise between profit enlargement and sustainable investments through controlling mechanisms and constant reminders to invest into corporate infrastructure.

A main contributor for managing institutional differences successfully is the use of local management. Interview data revealed a clear decision by LSG to use local managers for running the foreign subsidiaries. The advantage of this strategy is the local acquaintance of the managers and their knowledge about the market and moreover about the institutional features of the host country. Furthermore, the local managers are on average more able to handle stakeholders such as unions, governments and suppliers as well as customers. The drawback of using local management relating to the implementation of top-down transferred organizational capabilities is tried to get balanced through the identification of key personnel, which is then responsible for the implementation of HQ-based instructions.

6. DISCUSSION

In this section, the findings will be interpreted and put into a framework with the aim of elaborating determinants, similarities and differences of both cases. The comparative case study design revealed important insights about what determines how firms perceive institutional differences and what kind of coping mechanisms are developed consequently. The chapter will conclude with propositions based upon the findings and the framework.

6.1. Determinants for the transfer of organizational capabilities

Referring to Bartlett and Ghoshal's (1989) typology of MNCs, LHT can be characterized as global company with a high degree of standardization of the products and a low level of local responsiveness. LSG is a multinational corporation with a necessity to be more local responsive. The distinction is manifested in the organizational division of LHT and LSG. Whereas LHT is divided into product divisions, LSG is segregated into geographical regions. The analysis of the interview data showed that the level of location-bound OC is higher for LHT than for LSG. This implies that the firm-specific advantage of LHT strongly interacts with the institutional context of the home country and also affects the characteristics of the transfer of the organizational capabilities. LHT is able to conduct complex reparations and manage processes better than their competitors.

> *"The firm is, in my opinion, very good with technical systems. Everything concerning processes, complicated processes, complicated correlations, we are good at absorbing, steering and translating them into a valuable product for our customers."* (Interview 3, LHT, VP Strategy PD Components, own translation)

The capabilities LHT displays are intertwined with the institutional capital available for the firm. The favorable educational system including high-quality apprenticeships and dual educations provides the necessary technical and general skills. The low fluctuation rate, based on long-term working agreements, and a high commitment of the single employee to the employer, led LHT to develop their firm-specific advantage.

> *"Worldwide, we are able to offer our customers a base maintenance on the basis of German standards. Barely any competitor can keep up with our level and in case something goes wrong, emergency intervenes according to German standards."* (Interview 1, LHT, Manager Subsidiary Controlling, own translation)

Due to industry characteristics, LSG does not benefit from the high quality of German engineers and technical skillsets available on the labor market, but it was reported that the general higher educational level compared to the USA has a positive impact on the firm, e.g. in terms of reliability, detail-orientation and discipline.

> *"It takes us more time and energy to implement standards in the USA than in Germany or Europe. And the process-orientation and perhaps the attention to details and the discipline, that is what distinguishes us and represents an advantage compared to our competitors."* (Interview 10, LSG, SVP Strategy, own translation)

Compared to LHT, LSG benefits indirectly and to a lower extent from the German institutional environment. Hence, the level of location-bound organizational capabilities is lower. The level of location-bound organizational capabilities determines the modalities of the transfer. The following two tables summarize the main modes of OC transfer for LHT and LSG.

Table 6: Modalities of OC transfer of LHT

Modalities	**Details**
Unilateral decision-making	Decision-making mostly excludes subsidiaries and is led by the headquarters
Centralized initiatives	HQ as main trigger for new initiatives reducing e.g. bargaining costs with local unions and developed skills are transferred top-down
Expatriates	Secure know-how transfer and dispersion of the corporate culture to improve HQ-subsidiary relationships

Unilateral decision-making refers to the centralized organizational structure and the high level of location-bound organizational capabilities. The analysis of the interviews revealed a unilateral decision-making process referring to a strong power of the HQ. With the help of *centralized initiatives*, capabilities including know-how about complex procedures and clear-structured principles of operation are imposed upon foreign units. Centralized initiatives are able to reduce the costs of bargaining with local unions in countries with a large union power, such as CMEs. Depending on the scope of initiatives, the implementation does not need to be discussed or approved locally, once it is decided on the HQ level. The top-down approach is supported by the extensive use of managerial and operative *expatriates*. For example, by the time the affiliates in the UK and Ireland were set-up, know-how was solely transferred via expatriates. The modalities of OC creation and transfer look different for LSG, mainly due to the lower level of location-bound OC and the requirement for local responsiveness.

Table 7: Modalities of OC transfer of LSG

Modalities	Details
Multilateral decision-making	Ensures commitment of all concerned managers and increases the probability of a successful implementation of practices
Mixed capabilities approach	New capabilities are steered centrally, but developed centrally or locally and transferred back to the HQ as best practices
Local management	To overcome liability of foreignness and increase flexibility with regard to local adaptation

Multilateral decision-making is emphasized recently as a response to a growing complex business environment and the necessity to include perspectives from the subsidiary level. The so-called operations board was created to ensure operational excellence throughout the whole organization. The responsible managers of each of the regions participate in the board meetings and decide upon process improvements and know-how transfer. Including the concerned managers, who are then responsible for the implementation in the regions, increases the commitment and success of new initiatives. The board of directors exerts only little power over practice specifications on the operational level.

> *"Actually, I do not take any decision on my own, but all regions are included in the operations board with all important functions and together we go through the topics. There is a strategy which we approve together and then we do the implementation together as well."* (Interview 9, LSG, VP Operational Excellence, own translation)

The *mixed capabilities approach* creates a dynamic of top-down and bottom-up transfer of capabilities. Innovations are centrally coordinated. The creation of innovations takes place either in the headquarters in Germany or on the subsidiary level. Two examples of a bottom-up transfer are the creation of retail capabilities in the USA and the development of onboard retailing in the UK. The creation of a new skillset for the product development takes place in foreign markets. The knowledge gained will then be back-transferred to the headquarters and rolled out to other markets. The decision of creating the skills in foreign markets was based on the maturity of the respective product markets in the US and the UK. Hence, the firm is organizationally able to absorb new capabilities outside the central units and leverages the gained know-how to other subsidiaries. Best practices gain of significance for LSG.

> *"And then I asked everyone for an input and the region North America wanted something else than the region Asia. Well, then you have to sort out. And then this will be our global production system (…) You have to decide, for which topics you fight globally and for which you accept regional and local solutions."* (Interview 9, LSG, VP Operational Excellence, own translation)

The firm takes advantage of the large global network and the experience of single affiliates. Central units search for best practices and distribute them globally. Therewith subsidiaries are integrated in the process of the development of new skills and the success rate can be increased through the mixture of a top-down and bottom-up approach of capabilities development.

One major distinctive feature of LSG is the use of *local management* instead of expatriates. They know the market and the private and public stakeholders and enable the firm to flexibly react to specific market and institutional conditions. The independence of the subsidiaries with regard to the daily business gives the organization a high level of flexibility in order to serve the customer needs. Since a lower level of OC needs to be transferred from the headquarters to the subsidiaries, the use of expatriates is negligible.

The analysis of the interviews revealed that LHT and LSG utilize different approaches for the transfer of organizational capabilities in order to secure that the OC are diffused across borders. LHT is able to pursue a more centralized approach due to the MRO industry, which permits global integration. The centralized approach and the use of expatriates correspond to the high level of location-bound OC. LSG, however, displays a mixed approach for the transfer of OC, responding to lower level of location-bound OC. In order to create a firm-specific advantage, LSG uses the German institutional context as a foundation only for those specific topics where the CME offers advantages. The general higher level of education in Germany compared to

LMEs leads to a better quality of the product (Streeck, 1997). Through this mixed approach, LSG is able to exploit institutional advantages provided by the home country but is also able to act locally.

6.2. Framework of antecedents and coping mechanisms

In this section, the coping mechanisms to manage institutional differences applied by LHT and LSG will be explained and specified according to exact relations with regard to firm-level characteristics in accordance with different sources of FSA and the institutional context. Some coping mechanisms are very similar and derive from similar antecedents, whereas others differ due to the interaction of FSA and the institutional context. Since the case firms also face challenges within the home country due to German institutional specificities, the results include coping mechanisms for the German institutional environment and for other CMEs. Table 8 shows a matrix of the detected coping mechanisms, separated for firms with a high and a low level of location-bound OC and divided into LMEs and CMEs. A high or a low level of location-bound OC refers to Germany, a typical example for a CME according to Hall and Soskice (2001), as the home country, but is very likely to be applicable for other types of economies as well. The coping mechanisms are divided into general, context-specific and distinctive coping mechanisms. *General coping mechanisms* (GCM) are implemented by MNCs irrespective the institutional environment and the level of location-bound OC. *Context-specific coping mechanisms* (CCM) are developed for either LMEs or CMEs and strongly related to the specific host-environment but rather independent from the level of location-bound organizational capabilities. *Distinctive coping mechanisms* (DCM) are developed for the specific interaction of the institutional context and the nature of organizational capabilities. Deviating institutions between the home and the host country call for the application of very specific coping mechanisms in order to secure the FSA advantage abroad. Thus, DCM always include context-specificity as well, but are expanded by antecedents consisting of the interaction of organizational capabilities and the institutional environment. The replicability of organizational capabilities is of major importance.

Table 8: Framework of antecedents for types of coping mechanisms

Antecedent	Institutional context	
	LMEs	**CMEs**
High level of location-bound OC	Localized HR strategy (GCM) Constant supervision approach (GCM) Internal training (CCM) Employer branding (CCM) Training for specific tasks (DCM) Governmental collaboration (DCM) Staff exchange (DCM)	Localized HR strategy (GCM) Constant supervision approach (GCM) Domestic institutional arbitrage (CCM) Broad internal training (DCM)
Low level of location-bound OC	Localized HR strategy (GCM) Constant supervision approach (GCM) Mixed control mechanism (GCM) Internal training (CCM) Employer branding (CCM)	Localized HR strategy (GCM) Constant supervision approach (GCM) Mixed control mechanism (GCM) Domestic institutional arbitrage (CCM) Union fraternization (DCM)

6.2.1. General coping mechanisms

A *localized HR strategy* can be found in all four configurations in table 8. It enables firms that run operations abroad to develop an appropriate sourcing strategy according to local market circumstances. Due to differences across borders, not only of institutional nature but also economic or cultural factors, a global HR sourcing strategy would not be able to respond to those differences.

The *constant supervision approach* is also applicable in all four fields of the matrix. On the one hand, the constant supervision approach does not allow for local adaptation and is aimed to ensure an exact implementation of centrally defined measures. On the one hand, the constant supervision and guidance is necessary if none of the other coping mechanisms is successful. Hence, constant supervision is independent from organizational capabilities or the institutional environment since it refers to specific topics.

Mixed control mechanisms were detected to be rather applied by firms whose level of location-bound OC is low. However, it can be classified as a general instead of a context-specific mechanism since there is no distinction of appliance between LMEs and CMEs. Concerning topics where capabilities are derived from the home environment and transferred top-down, there are strict control mechanisms for the implementation. The regional headquarters of LSG in the USA, for example, reported challenges for an implementation of very German specific initiatives, but is forced to stick to these specifications. In other fields, however, the subsidiaries are in general independent in finding a way to implement central guidelines and can therefore respond to national requirements and local adaptation. The mixed control mechanism is similar to the constant supervision approach. Whereas the constant supervision approach refers to exceptional circumstances if other coping mechanisms fail, the mixed control mechanism is only applied if the level of location-bound OC is low but certain capabilities, developed with a supportive institutional context, need to be implemented locally. To be precise, it is not a pure general coping mechanism as it is only applicable for firms with a low level of location-bound OC and not for MNCs in general.

6.2.2. Context-specific coping mechanisms

Internal training is provided to employees of both firms. But more time and resources for training are spent in LMEs due to the non-existence of vocational education and a general lower educational level. Whereas LSG provides internal training mainly due to specific regulative requirements, e.g. with regard to security aspects and working at the airport area, LHT needs to actually train skills necessary for the production. In LMEs, internal training needs to be offered irrespective the level of location-bound OC. This coping mechanism balances differences deriving from the sphere of vocational training and education.

Employer branding helps to increase the commitment of the single employees, especially in LMEs where there is a comparably high fluctuation. It is used as a tool to convince qualified employees to stay with the firm, if the management cannot award them with financial compensation. Non-financial incentives and a favorable corporate culture are used as retention measures. If the firm requires highly qualified employees for the production and for the implementation of OC from the home country, employer branding helps to increase the bond between the employer and the employee and decreases the threat of poaching from competitors. Integration programs are useful, even though there is no risk of poaching for LSG due to the generally lower level of skilled workforce needed. But due to the fluid labor market in the USA, employees need to be retained in order to increase the creation of new capabilities. Employer branding therefore helps to deal with institutional deviations in the spheres of employees and industrial relations.

Domestic institutional arbitrage is probably the most important coping mechanism for CMEs and refers to the possibility of the firm to leverage on different institutions within an economy. It reduces labor costs but, what is more, decreases the influence of unions and by-passes the bilateral labor agreements negotiated by the employer and employee representatives. Domestic institutional arbitrage is manifested in two different forms. Labor arbitrage is conducted especially in Scandinavia in order to prevent high labor costs. Domestic labor arbitrage can only take place in countries with wage differentials within the economy. Outsourcing is not solely a solution to circumvent collective bargaining agreements, but also diminishes the influence of one single union. The more fragmented the workforce, the lower the power of the unions. The firm benefits through faster decision-making processes by avoiding co-determination in Germany and lower resistance to change. Furthermore, the outsourced personnel is not part of the Lufthansa labor agreement bargained by the employee and employer representatives. The thereof gained flexibility enables LHT to adjust resources for optimal capacity utilization in CMEs. Domestic institutional arbitrage is a response to detrimental characteristics of the sphere of industrial relations.

6.2.3. Distinctive coping mechanisms

The following mechanisms correspond to specific firm-level characteristics and institutional contexts and are only found in one of the four fields in the matrix. The replicability of organizational characteristics is predominant.

Governmental collaboration represents one coping mechanism to overcome an institutional environment which is detrimental to the transfer and development of capabilities and negatively influences FDI location decisions. This mechanism aims at balancing out lacking institutions in LMEs. In CMEs, the environment provides the necessary institutions and skills that the firm needs. The local government promises to balance institutional drawbacks, for example by ensuring the creation of educational institutes in order to provide necessary skills. Firms displaying a high level of location-bound OC, based upon favorable institutional conditions for the development of a FSA, need to secure skilled employees in LMEs.

A system of *staff exchange* on the operative level was created in order to transfer know-how to foreign-based employees and in order to increase the relationship between the HQ and the subsidiaries. Staff exchange is applied in LMEs as the bond between employees to the brand was detected to be lower and the qualification level of employees is lower than in CMEs. A strong top-down approach reveals disadvantages for the whole organization since it might lead to a fragile relationship between HQ employees and local staff. This is hazardous for a successful transfer of organizational capabilities as it negatively influences the willingness of the subsidiary for the implementation of central practices. A highly skilled workforce is essential for the replication of OC and, amongst others, secured through staff exchange in LMEs.

The *training for specific tasks* is a coping mechanism used in LMEs in order to make the employee less attractive for competitors. Poaching can therefore be prevented and the fluctuation rate, which is detrimental for the transfer of organizational capabilities, is reduced. Due to the strong interaction between skilled labor and OC, the firm needs to secure a stable workforce.

A *broad internal training* serves as a coping mechanism for a rigid labor market in CMEs, induced by the importance of industrial-relations. Since the sphere of industrial-relations in CMEs also prevents poaching by competitors (Hall & Soskice, 2001, p. 27), a broad skillset of the individual employee enables the firm to internally shift staff and make layoffs nonessential. Supported by the use of outsourced staff, which is on average less qualified, key personnel can therefore be retained through this measure and increase the level of industry-specific skills available to the firm. Hence, additionally to patient capital (Höpner, 2005, p. 338), a broad internal training allows firms to retain skilled labor throughout economic downturns and prevents the loss of capabilities.

Union fraternization is a coping mechanism in countries with a high degree of union involvement and prevalent in CMEs. An example was mentioned in the interview, where the management brought the union in for a specific change management project in Germany. The aim is to convince the union representatives of necessary decisions and strategies. Findings showed that union fraternization was only used by LSG. That implies that the union involvement and the sphere of industrial relations in CMEs are perceived more detrimental if the level of location-bound OC is lower. One explanation can be given through the importance of collective bargaining rounds and long-term working contracts for the creation of OC based on institutional capital. The sphere of industrial relations and unions is not supportive for firms in CMEs, if OC are not related to the high level of skilled employees.

In sum, the findings show that the selected firms display two different modalities of OC transfer. In line with Bartlett and Ghoshal (1989) and Ghoshal and Nohria (1993), gathered data supports the notion that global companies rather use a top-down approach to transfer OC and multinational companies apply a mixed approach including subsidiaries for the creation of knowledge. Additionally, the institutional capital available to the global firm in the home country is beneficial for the development of distinctive capabilities that support the creation of a firm-specific advantage. For the multinational company, however, the firm-specific advantage is only partly dependent on the institutional home context and derived from other economies as well by being able to absorb those capabilities through a multinational strategy. A theoretically funded link between the organizational characteristics of the firm, the institutional endowments both firms are able to exploit and the type of coping mechanisms could therefore be detected and will be presented in the next section.

6.3. Development of propositions

The antecedent of what determines how firms deal with institutional differences is a function of firm-level factors such as the organizational structure of the firm and the interaction between the FSA and the institutional context of the home country. The distinction can be drawn between location-bound and non location-bound OC. Including antecedents for specific types of coping mechanisms allows going beyond the elaboration of coping mechanisms by incorporating the context-specificities as well.

Different coping mechanisms were found for LMEs and CMEs. This supports the existence of location capability (Zaheer & Nachum, 2011) and the notion that institutions induce the creation of capabilities (Hall & Soskice, 2001; Streeck, 1997). The institutions in LMEs and CMEs do influence firm behavior and the way firms respond to institutional differences (see e.g. Kluike & Pull, 2013). Consequently, firms seek to develop respective mechanisms. Hence, it can be concluded that:

Proposition 1a: *The institutional context of liberal and coordinated market economies determines the type of coping mechanism applied by firms*.

The institutional configuration of an economy renders specific possibilities for the creation of capabilities and the development of a firm-specific advantage (Campbell & Pedersen, 2007; Almond & Menendez, 2006). Especially the spheres of vocational training and education, industrial relations and employees were detected to significantly affect the development of coping mechanisms. Firms must therefore develop mechanisms to balance the varying endowments of the home and the host country. Thus:

Proposition 1b: *Firms are more likely to develop context-specific coping mechanisms for liberal market economies than for coordinated market economies, irrespective of the level of location-bound organizational capabilities.*

The relation between the development of OC and the institutional context, empirically supported by the selection of a global firm and a multinational firm (Bartlett & Ghoshal, 1989), affects the scope of distinctive coping mechanisms. The distinction into location-bound and non location-bound OC revealed not only findings about the organizational capabilities transfer but also about very specific coping mechanisms. OC are a strong indicator for the creation of a firm-specific advantage (Aharoni, 1993; Erramilli et al., 1997), and especially if they are location-bound, the firm needs to develop mechanisms to secure the FSA across borders. Therefore:

Proposition 2a: *Firms displaying a high level of location-bound organizational capabilities develop more distinctive coping mechanisms in order to transfer or replicate their capabilities throughout economies with divergent institutions.*

The requirements for firms with non location-bound OC differ since they are offered more flexibility with regard to the development and diffusion of organizational capabilities. These firms can more easily adjust to local requirements without losing their FSA. The replication of location-bound OC is negligible. Thus:

Proposition 2b: *Firms displaying a low level of location-bound organizational capabilities develop only few distinctive coping mechanisms and respond to institutional differences by rather using general and context-specific coping mechanisms.*

7. IMPLICATIONS

Referring to the literature review, expected and unexpected results were found. Based on the comparative case study, findings show that different types of firms produce similar and diverging ways of managing institutional differences for CMEs and LMEs. Additionally, several factors were detected, which have not been explored in existing literature. The next two chapters discuss the findings for theoretical and practical implications.

7.1. Theoretical and empirical implications

The five spheres of Hall and Soskice (2001) in the VoC literature were found to have unequal effects on the firms with regard to the creation and transfer of organizational capabilities and the therewith deducted coping mechanisms. The spheres of industrial relations, education and vocational training and employees revealed stronger implications for the firm than the sphere of inter-firm relations in CMEs and LMEs. The two selected firms developed coping mechanisms for differences in the spheres of industrial relations, education and vocational training and employees but not for the sphere of inter-firm relations between the home and the host country. These three spheres are crucial for firms regarding the creation and the transfer of organizational capabilities and require the development of coping mechanisms. The use of expatriates of LHT is to a big part in line with other research findings stating that expatriates serve as a control mechanism (Ferner, Quintanilla & Varul, 2001, p. 115). Multinational firms displaying a lower level of location-bound OC are more likely to install local management.

No major challenges in the sphere of inter-firm relations between CMEs and LMEs were detected in the analysis of the data. A theoretical contribution can nevertheless be drawn from the analysis of the data for that sphere. Hall and Soskice (2001) claim strong inter-firm collaborations in Germany, even with suppliers and customers, to facilitate the diffusion of technological know-how. The German institutional environment supports relational contracting for technology transfer, whereas in LMEs firms use the fluid labor market including poaching as a processor for technological know-how (Hall & Soskice, 2001, p. 26f). The empirical data showed that this proposition does not hold any longer to that extent. LHT benefits from the location of original equipment manufacturers and universities around the HQ in Germany in order to develop new products and procedures. But it was reported in the interviews, that contracting between other firms has developed towards a sensitive topic and is conducted more carefully than decades ago (Interview 4, LHT, Head of Strategy and Business Development PD ACS). There is a growing importance of intellectual property rights protection in CMEs. Hence, relational contracting and the sphere of inter-firm relations as means of technology transfer are more critical than stated by Hall and Soskice (2001).

The use of a localized HR strategy including sourcing and local working contracts is in line with findings from Tregaskis and Brewster (2006) stating that the host country's institutional configuration is a strong barrier for global convergence of HR practices. This argument holds true for this comparative case study since contingent employment practices enable the firms to adjust their HR sourcing strategy to the respective labor market, especially for operative staff. If the educational level deviates from the home country, localized HR strategy is more able to cope with the differences compared to global converging practices.

The training for specific skills in LMEs is supported by research findings from Iseke and Schneider (2012) stating that in LMEs, job characteristics are more task-centered instead of function-centered. That means that broader skills of the workforce are lacking (Iseke & Schneider, 2012, p. 239). The findings of this thesis therefore reveal that firms from CMEs replicate practices of local firms in LMEs. In this sphere, the firm gets isomorph with the host country‘s environment since the institutional context, here the possibility of poaching from competitors, contradicts with the provision of a broad internal training for employees in CMEs.

The sphere of employees was detected to be crucial for a successful transfer of organizational capabilities. One distinct contributor for the creation of organizational capabilities of both firms was the high commitment of employees to contribute to the company's goals paired with a strong binding to the Lufthansa brand. It is essential for the firm to secure high employee commitment in the affiliates and develop respective mechanisms. Both firms did so by highlighting different concepts of employer branding and training to increase the commitment and decrease the risk of adverse selection and moral hazard reported by Hall and Soskice (2001, p. 7).

Referring to the theoretical and empirical puzzle, findings revealed that location-bound capabilities and the pressure for isomorphism are not mutually exclusive. The way firms handle the challenge of transferring capabilities from the home country and at the same time being able to respond to local pressures depends on the organizational structure of the firm and the industry characteristics referring to the possibility for a global strategy or to the need for local responsiveness. The level of skilled workforce needed and the level of location-bound organizational capabilities might influence the level of isomorphism in the host country. LSG displayed a higher level of isomorphism indicated by a local management, regional functional divisions and multilateral decision-making in order to respond to national requirements and to local pressure for adaptation. One reason might be the lose connection between the FSA and the institutional home environment that enables local adaptation. The use of general instead of distinctive coping mechanisms supports this notion. LHT instead focuses on the resources and capabilities available in the German home country and shows a lower level of isomorphism. Solely the training for specific tasks can be interpreted as isomorphism as in LMEs tasks are in general rather task-centered than function-centered (Iseke & Schneider, 2012, p. 239) and LHT adapted to that practice. The large amount of distinctive coping mechanisms can be considered as a proxy for resistance to isomorphic pressures. First, one explanation might be the high level of location-bound capabilities and the importance of engineering for that industry. *"Germany has invested in institutional frameworks associated with "competency enhancing" human resource practices that give its firms an advantage in more generic technologies in which organizational complexity is higher"* (Casper & Whitley, 2004, p. 89). LHT benefits in particular from the German institutional configuration and therefore only gets isomorph in the host country when truly necessary. Second, the accompanying positive brand image of LHT, derived from the German home base and qualities that are induced by the German institutional environment, such as technology affinity, high quality, a structured way of working and a clear governance structure, supports the circumvention of isomorphic pressures. The interaction between location-bound FSA and the CME home country environment, incorporated in a strong brand image, might be an indication for firms to overcome normative pressures for isomorphism. Normative pressures in a host country occur through the need for fulfillment of professional requirements and the legitimization for occupational autonomy (DiMaggio & Powell, 1983; Zaheer, 1995). This implication refers to the concept of advantage of foreignness. In this respect, the advantage of foreignness outweighs the liability of foreignness.

Limited support for institutional arbitrage including outward foreign direct investment as a response to misalignment between the firms' needs and the institutional capital available (Witt & Lewin, 2007) was detected. Liability of home was therefore no explanatory factor for institutional arbitrage, though for domestic institutional arbitrage. Both firms were able to develop mechanisms to cope with institutional differences and cumbersome institutions in the home country. On the one hand, the explanation can be found in the production characteristics of the firm and the inability to split up the production process. Interviewees from LHT did not mention an internationalization project relating to institutional arbitrage. On the other hand, the high-level of location-bound organizational capabilities, based on institutions and resources which the firm in the home country exploits, might make the need for institutional arbitrage redundant. LSG, however, bought another firm in Ireland in order to develop capabilities for a new product segment. And the development of general retail skills to broaden the product portfolio takes place in the USA, e.g. through the acquisition of local producers of sandwiches for Starbucks and SevenEleven (Interview 8, LSG, VP Strategy USA). No direct reasons for institutional arbitrage could be detected. Nonetheless, the fact that both projects regarding the development of new skills are conducted in LMEs and mainly through acquisitions can be interpreted as an indirect application of institutional arbitrage. In general, a high volume of cross-border acquisitions with the aim of absorbing new skills may be an indicator, though indirect, for institutional arbitrage (Schneider et al., 2010, p. 246). Institutional arbitrage might therefore more likely be utilized by firms with a low level of location-bound organizational capabilities. That is in line with Bartlett and Ghoshal (1989), who see arbitrage as a characteristic of multinational firms although findings from LSG oppose the argument that knowledge created on a subsidiary level stay in the units and will not get back-transferred (Bartlett & Ghoshal, 1998, p. 58).

The findings of this thesis contest the assumption of Whitley (2001) and show that German firms are notwithstanding able to become MNCs, also pursuing global strategies, even though their organizational capabilities are embedded in the local home context. The theoretical contribution of this thesis consists of the elaboration of a more-detailed picture of how firms respond to institutional differences. The comparative case study design sheds light on the question concerning what determines how a firm deals with institutional differences by indicating that the level of location-bound organizational capabilities is an important antecedent for coping mechanisms. Results contain the elaboration of general, context-specific and distinctive coping mechanisms, depending on the level of location-bound OC. The VoC theory of Hall & Soskice (2001) was found to provide relevant concepts and three out of the five spheres were identified to have a strong impact on firms and therefore called for context-specific and distinctive coping mechanisms. In general, firms with non location-bound OC are more complying to isomorphic pressures in the host country and develop a lower amount of distinctive coping mechanisms.

7.2. Implications for practitioners

The findings of the thesis have also produced practical implications. MNCs with a global integration strategy and a high level of location-bound organizational capabilities are able to transfer OC across borders by the use of unilateral decisions, centralized initiatives and expatriates. Additionally, distinctive mechanisms, such as training for specific tasks, governmental collaboration and staff exchange, have to be developed in order to secure the transfer of capabilities and a firm-specific advantage abroad. Firms with a need for local responsiveness and a lower level of location-bound organizational capabilities can manage institutional differences through multilateral decision-making, a mixed capabilities development approach and the use of local management. Supported by more general coping mechanisms, the firm is able to respond to institutional differences. Thus, the three types of coping mechanisms help firms to manage institutional differences depending on the type of the organization, the nature of organizational capabilities and the environment of the home and the host country.

Some additional practical implications derived from interview findings are herewith highlighted. If the firm is characterized by a top-down approach to the subsidiaries, a discrepancy between HQ-staff and local subsidiaries' staff can occur. Therefore, staff exchange and the use of best practice can ensure a successful transfer of organizational capabilities. Staff exchange increases the collaboration between employees, enables know-how transfer and the transfer of the corporate culture. Best practices were mentioned as one solution to value affiliates for own ideas and contributions, especially since little attention with regard to capabilities development is paid to them. Best practices do not only increase the self-esteem of the subsidiary but also increase the willingness to implement top-down approaches if necessary. The training for specific tasks was detected to overcome the high fluctuation rate existing in the USA and can be recommended for MNCs in general.

7.3. Limitations

Limitations of this thesis consist mainly of methodological constraints and drawbacks from the research design. Regarding the research design, the choice of using a case study approach inhibits reaching universal validity of the findings. The findings are reliable for the research setting, but the generalizability into a broader theory is restricted due to the qualitative design and a comparably small number of interviews conducted, which prevents higher support of the findings.

Findings for coping mechanisms for LMEs and CMEs are based upon a small sample of the respective countries. The USA serves as the main representative for a LME and Belgium and the Scandinavian countries represent CMEs. Unless the VP Strategy in the USA, no interviews were conducted with managers on the subsidiary level in CMEs, but only with managers on the HQ level who are responsible for the European countries. It was reported in the interviews that the UK causes less challenges for the firms to be successful than the USA. CMEs and LMEs might possibly vary and therefore lead to more country-specific coping mechanisms, which could not be detected through this research framework. The analysis of the institutional environment was based solely on the five spheres of Hall and Soskice (2001), but institutional changes over the last decade were not taken into consideration (see e.g. Schneider & Paunescu, 2012; Campbell & Pedersen, 2007). However, the use of interview data was helpful to prove the existence and influence of the five spheres of institutions on firms. The inclusion of the sphere of corporate governance, including access to finance and investors according to Hall and Soskice (2001), was restricted due to the case firm selection. Both firms belong to an aviation group, which is the main investor and therefore no external access to finance is necessary for LSG and LHT.

One major limitation derives from the inability to draw conclusions upon the success of the detected coping mechanisms. Due to the choice of interview partners, the effectiveness of the mechanisms in the concerned subsidiaries could not be proved. Additionally, the interviewees occupy a rather high position in the hierarchy of the case firms and the inclusion of lower level management and operative personnel would have created a more detailed picture of challenges for the transfer of OC and the impact of a deviant institutional environment. Additionally, it was mentioned that in some fields the subsidiaries, especially at LSG, are granted autonomy for managing local institutional characteristics. Since no local subsidiary manager was interviewed, these local mechanisms are excluded in this thesis. No financial information or information about the performance of the concerned foreign subsidiaries was included. LHT and LSG were treated as two comprehensive entities, although especially the organization of LHT into product divisions might call for a more detailed consideration as the level of location-bound capabilities is not consistently high throughout all PDs. The introduced concept of domestic institutional arbitrage also includes labor arbitrage, although that is not exclusively a coping mechanism for institutional differences but also for economic factors such as high labor costs in CMEs.

7.4. Implications for future research

The generalizability of the findings can be enhanced by conducting further case studies. Thereby the completeness of the detected coping mechanisms can be supported or enlarged, if necessary, with regard to the specific findings of this thesis and the characteristics of the firm. Findings point out dynamics between the interaction of firm-specific advantages based on the level of location-bound OC and the degree of isomorphism in a host country. Further studies could contribute to a clearer understanding of these dynamics. In a next step, quantitative studies enable the development of a general theory of coping mechanisms.

Referring to the limitations of this thesis, the effectiveness of coping mechanisms should be researched in order to evaluate the quality of the coping mechanisms. This can lead to a clearer picture of mechanisms that are more effective and appropriate, also from a subsidiary perspective. Further theoretical contributions can be derived by examining the interplay between determinants for isomorphism and the transfer of home country practices in detail. An in-depth analysis of the interaction between firm-specific advantages based on institutional capital and pressures for isomorphism can enhance existing strategy, CC and institutional literature. The propositions 2a and 2b refer to firms in general and leave out the CME environment as the home country. Hence, both propositions are generalized for LME and CME based firms, since nothing to the contrary was detected that would restrict the development of these propositions. Further research could empirically prove the generalizability.

From a comparative capitalism perspective, in order to elaborate a more detailed topography of the importance of institutions for firm-specific advantages and the impact of institutional deviations, a sample of only CMEs or only LMEs should be used. Since there are differences between CMEs or LMEs as well, it might be interesting to investigate coping mechanisms for only CMEs or only LMEs. Using VoC literature in order to elaborate the importance of institutions for organizational capabilities was useful, although it might not be collectively exhaustive with regard to the five spheres introduced by Hall and Soskice (2001) (see e.g. Boyer, 2005; Schneider & Paunescu, 2012).

8. CONCLUSION

The aim of the study was to examine how firms secure the transfer of organizational capabilities and which coping mechanisms are developed in order to manage institutional differences. The motivation for this research was formed around "*the long-standing criticisms of the industry-based and resource-based views' lack of attention to contexts*" (Peng et al., 2009, p. 63). The findings from thirteen interviews with managers from Lufthansa Technik and LSG Sky Chefs contribute to a clearer understanding of the interaction between the nature of firm-specific advantages and the institutional environment. More specifically, the challenge of transferring and replicating the organizational capabilities was examined. By conducting a comparative case study, the distinction between a global company and a multinational company helped to determine the following outcome.

Firms with a high level of location-bound OC generally apply a top-down approach of transferring organizational capabilities including unilateral decision-making, centralized initiatives and expatriates. In contrast, a lower level of location-bound OC leads to a mixed approach that includes the subsidiaries as an incubator for the creation of new capabilities, a multilateral decision-making process and local management. When compared to LSG, LHT benefits to a larger extent from the institutional home embeddedness, also referred to as location capability, for the development of organizational capabilities leading to a firm-specific advantage. The results identified that the level of location-bound OC is an antecedent of how firms transfer and replicate OC and respond to institutional differences.

Three types of coping mechanisms were detected. General coping mechanisms are applicable to MNCs in general and include a localized HR strategy and a constant supervision approach. Context-specific coping mechanisms are developed for either LMEs or CMEs, irrespective the level of location-bound organizational capabilities. These include employer branding and internal training for LMEs and domestic institutional arbitrage for CMEs. Distinctive coping mechanisms include context-specificity, but are expanded by antecedents consisting of the interaction of organizational capabilities and the institutional environment. The replicability of, mainly location-bound, organizational capabilities is emphasized. Firms with a high level of location-bound OC use training for specific tasks, staff exchange, a broad internal training and governmental collaboration to manage institutional differences. Union fraternization was found as a distinctive coping mechanism for firms with a low level of location-bound OC. Firms with location-bound OC are more likely to develop distinctive coping mechanisms whereas firms with non location-bound OC instead rely on context-specific and general coping mechanisms.

Despite some limitations, this thesis contributes to theory and practice. The results indicate that the institutional environment of LMEs and CMEs affect the transfer of OC, but the LME environment requires more attention with regard to coping mechanisms, especially if the creation of organizational capabilities is location-bound. The use of Varieties of Capitalism literature (Hall & Soskice, 2001) was found to be legitimate to analyze the interaction between the nature of FSA and the institutional context. The three spheres of vocational training and education, industrial relations and employees have a particularly strong impact on the development of OC, making it necessary for firms to transfer or replicate the capabilities resulting from these spheres.

Additionally, interesting insights referring to institutional theory and isomorphism were found. Firms with a high level of location-bound OC tend to overcome normative pressures through the strong connection between capabilities and a favorable institutional home environment, including industry-specificities and reputation as explanatory factors. Support for institutional arbitrage was only found indirectly and is more likely to be deployed if the level of location-bound OC is low. Findings imply that both investigated firms were able to develop mechanisms in order to overcome liability of home deriving from restrictive institutions. Firms with a lower level of location-bound OC react with local adaptation and local management to overcome the liability of foreignness. If the level of location-bound OC is high and the firm benefits from the home-country's institutional environment in order to develop a firm-specific advantage, the liability of foreignness can be converted into an advantage of foreignness by developing appropriate coping mechanisms that secure the replicability of those capabilities.

In sum, this thesis shows that different types of MNCs can successfully operate through various institutional environments by aligning their modalities of organizational capabilities transfer and developing coping mechanisms, accordingly.

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APPENDIX

Table 9: Guideline for the semi-structured interviews

	Question / Topic	Comment	Operationalization
HQ level			
1	What is the firm good at and what makes it unique compared to its competitors?	Further questions e.g. asked for the reason for a specific skill.	Distinctive capabilities
2	What are the sources of the capabilities? Are they connected to the German home base?		Embeddedness of capabilities
3	Where do you see the advantages and disadvantages of having Germany as the home base with regard to institutional environment (e.g. industrial relations, education system)?	Explanation concerning institutional constraints.	Home country environment; firm behavior
4	How does the internationalization strategy of the firm looks like in broad terms?		Firm behavior
5	Which activities are primarily conducted in Germany and which abroad?	Organizational characteristics.	Firm behavior; coping mechanisms
6	How would you describe the HQ-subsidiary relationships? Are the subsidiaries strictly controlled in what they are doing or to what extent are they independent and can adapt to their host country environment?		Organizational characteristics
7	Are there differences between the international activities and the subsidiaries in LME countries versus CME countries?	Respective countries and spheres of VoC were named.	LMEs vs CMEs; firm behavior
8	How do you transfer know-how and organizational capabilities abroad? How do you secure, that they are duplicated abroad, if so?		Transfer of capabilities
9	Do some subsidiaries develop their own capabilities or contribute to the development of new capabilities?		Creation of capabilities
10	To what extent do you back-transfer capabilities created abroad and roll them out globally, if applicable?		Transfer of capabilities
11	Do you face any constraints in transferring the capabilities abroad and if so, how do you deal with it?	Respective countries were named.	Transfer of capabilities; coping mechanisms
12	Why do you think the firm is so successful in managing their international activities? How can it successfully manage their global portfolio even though they have to deal with many different institutional environments?		Firm behavior; coping mechanisms

Table 9: (Continued)

		Question / Topic	Comment	Operationalization
Subsidiary level				
	1	Which kind of subsidiaries are located in the LMEs and CMEs and why?	Respective countries were named.	Firm behavior
	2	How do the subsidiaries in that country contribute to the success of the firm?		Organizational characteristics
	3	How do you secure the same quality, processes etc. throughout all the international operations, and specifically in LMEs and CMEs?		Transfer of capabilities; coping mechanisms
	4	How do knowledge transfer and the transfer of capabilities take place? Is it solely a top-down process?		Transfer of capabilities; organizational characteristics
	5	What are the differences and challenges to operate in LMEs and CMEs, compared to the German home base?		LMEs vs CMEs
	6	How does the company deal with the variety of institutional environments?	Specific spheres of VoC were asked.	Firm behavior; coping mechanisms
	7	Where do you see advantages of having subsidiaries in LMEs versus CMEs and how does the subsidiary cope with it?		LMEs vs CMEs
	8	Does the institutional environment support the activities in the host country? Or the development of specific capabilities?		LMEs vs CMEs; creation of capabilities
	9	Which of the 5 spheres of Hall/Soskice 2001 do influence the subsidiary and what is the effect on firm behavior?	5 spheres were explained to them.	LMEs vs CMEs; firm behavior
	10	Why are the subsidiaries successfully operating abroad, considering the fact that the institutional environment deviates from the home country?		Firm behavior; coping mechanisms