Employment practices in US and German Companies in Central Eastern Europe: Americanisation, Germanisation or Something Else?

Research by the Industrial Relations Research Unit, Warwick Business School
Sponsored by the UK's Economic and Social Research Council (ESRC)
http://www.esrcsocietytoday.ac.uk/ESRCInfoCentre/minisite/mnc/index.html

Contents

1. Introduction: the research issue

How different are the employment practices of German and US-based multinational companies? The two groups of companies are usually seen as representative of 'continental' and 'Anglo-Saxon' styles. Such styles differ on important areas such as working time, teamwork, industrial relations, employee involvement, flexibility and diversity management. Few have ever attempted to empirically test the actual differences in practice and in the same context. IRRU, with the co-operation of local research institutes, has conducted case study research to address this question of theoretical and practical relevance for industrial relations and personnel management.

Hungary, Poland and Slovenia, as new, dynamic EU member states from Central Europe (CE), offer a unique observatory for a comparison of external influences and for an analysis of innovative practices. They constitute a suitable 'neutral' test bed for a comparison of management styles and practices. In addition, CE raises much-debated issues such as social dumping and relocations within the enlarged EU, and challenges many stereotyped views about the so-called 'new Europe'.

Our focus on the automotive component sector, which is particularly export-oriented, has revealed how advanced the CE subsidiaries are in terms of quality, productivity and flexibility. In terms of employment practices, the research – which includes twelve case studies – has detected new forms of 'hybridisation' between different models, responding to different requirements in each country and often each location. On some issues, such as corporate culture, working time and functional flexibility, German and US companies tend to follow their home-country practices. By contrast, on industrial relations and employee participation, the widespread view that German companies would be more committed to indirect social dialogue (through trade unions and works councils) and the Americans more committed to individualised, direct communication is not confirmed.

2. Multinationals & employment in Central Europe

The CE new member states of the European Union have rapidly become very attractive for foreign investment (FDI), and multinational companies (MNCs) have become prominent fixtures in their economies. The US and Germany are by far the most important countries of origin for FDI in Central Europe. Our research helps to test if competing foreign management approaches are equally suited to the human resources of the region.

CE countries are, however, different in their transformation path. For instance, Hungary, Poland and Slovenia (the countries included in this study) display important differences in their institutional environment with regard to employment relations. Poland has a highly decentralised pluralist system with politicised trade unions, weak employer associations and single-channel representation. Hungary is more shaped by the role of large MNCs, which arrived here earlier than elsewhere; it has a pluralist trade union scene but also a dual channel of representation, and a tighter labour market than Poland thanks to more generous early retirement provisions and a different demographic outlook. Slovenia is exceptionally dense institutionally, with comprehensive multi-employer collective bargaining, centralised social dialogue, and works councils alongside pluralist trade unions. Poland is therefore most similar to the Anglo-Saxon model, and Slovenia to the German (or rather Austrian) one, with Hungary being somewhere in between.

Some, including the European Commission, have raised the prospect of western European companies being a channel for bottom-up transfer of elements of the so-called European Social Model, such as statutory rights to information and consultation of employees. Others, including parts of the media and political parties, have been more pessimistic as to the role of MNCs in affecting the direction of social change, raising fears of 'social dumping'. Due to geographic proximity, economic integration thanks to EU membership, and comparable productivity levels, the large gap in unit labour costs between Western and Central Europe opens up particularly large margins for efficiency-oriented international reconfiguration by MNCs, making comparisons of employment practices crucial.

But is it true that companies rooted in the European Social Model, such as German ones, implement different practices than American ones, coming from different models and traditions?

3. German vs US styles in HRM

Some international business scholars have argued that multinational companies, far from being 'footloose', are rooted in home-country business systems. For instance, a recent study which focussed on the corporate HR function has even shown that in spite of common pressure for marketisation, and resulting changes in similar directions, the differences in the organisation of personnel management between American and Japanese large corporations are actually increasing, in particular with regard to decentralisation and the role of internal labour markets (Jacoby 2005).

Is it still true?
'MNCs from distinctive and cohesive business systems with strong associated institutions governing economic activities [such as Germany] may well become more complex and differentiated as a result of FDI (…) but are unlikely to change their fundamental characteristics.' (Whitley 2001: 64)

German and American human resource management styles have been frequently contrasted and compared. The former is generally described as a 'collaborative' system, while in the latter 'firms are islands of authoritative control and order amidst market disorder' (Whitley 1999: 43). The two styles differ notably on the approach to employer-employee relations and on the nature of flexibility: the American model is based more on the principle of 'contract' while the German on that of 'status' (Streeck 1987). A 'contract' approach considers the workforce as a 'variable cost': pay and the number of employees will vary according to production needs, and the resulting incentives will motivate employees. A 'status' approach, by contrast, considers the workforce more as a 'fixed cost': it will achieve flexibility through training and multi-skilling, and will motivate employees by giving them a right of 'voice' in company affairs (e.g. through a works council).

Why the differences between US and German HRM?
HRM and international business experts have listed a number of reasons for the distinctiveness of US and German approaches to employment:
- *size*: the larger size of the US market has led US companies to grow larger and develop sophisticated organisation structures and forms of centralised procedural control, while German companies have relied more on 'direct' control through secondments of managers;
- *financial markets*: higher stock market capitalisation, ownership dispersion, influence of institutional investors (pension funds), stronger shareholders' rights in the US, unlike long-term relations with banks in Germany, pressure companies to prioritise short-term cost considerations over long-term commitment to the workforce; they also make 'venture capital' more available and promote rapid change and innovation; in these ways, they promote both numerical and pay flexibility, but limit functional flexibility;
- *political and legal institutions*: the German constitution, based on power-sharing among different actors, promotes co-determination and consensual change;
- *culture*: demographic growth and ethnic diversity in the US have promoted more sophisticated non-discrimination policies, but undermined welfare state growth, the creation of strong business associations and trade unions, centralised collective bargaining, and redistribution policies, leading to wider pay forks;
- *history*: US employers, benefiting from a more liberal, less state-sponsored process of industrialisation, have been more opposed to trade unions and state regulation than their German counterparts.

Previous research (e.g. Whitley 2001; Ferner and Varul 2000; Katz and Derbishire 2000; Edwards and Ferner 2002) has already identified several distinctive features of the national work systems of the two countries, constituting a 'grid' for our comparative study. Our research has focussed on nine dimensions, on which the differences between German and US companies seem most systematic (Table 1).

Table 1 - German and US MNCs ideal types

	German	US
Control from headquarters	Direct (expatriates)	Centralised, formalised reporting procedures
Employee participation	Indirect: regular consultation of works councils and/or trade unions	Direct: individualised HRM, quality circles, suggestion schemes, direct communication
Knowledge & culture basis	Technical expertise and tradition highly valued	Business/finance expertise, change and innovation highly valued
Teamwork rationale	Aiming at job enrichment & rotation, joint management, elected leaders	High horizontal control among employees, appointed leaders
Numerical flexibility	Permanent contracts, reluctance to resort to compulsory redundancies	Temporary contracts, use of agency workers, 'hire & fire' approach
Pay flexibility	Variable pay <10%, subject to standard, objective rules and indicators	Variable pay >10%, subject to individual performance appraisals by supervisors
Functional flexibility	High: multitasking, long multifunctional training, job rotation	Low: training 'on the job' reduces internal mobility
Working-time flexibility	High, annualisation of working hours (constant pay), subject to joint rules	High, in the form of unilaterally-managed overtime
Diversity management	Weak: no specific attention to specific groups' needs	Strong: programs for effectively including women and minorities

4. Research design

The scientific objective of this study was to test:

1) whether employment relations display significant and systematic American-German differences, by looking at subsidiaries within the same geographic area and the same economic sector; if yes, with what effects;
2) whether within a certain socio-political area the 'host countries' distinctively affect employment practices more than the 'home country effect': hence, a comparison of two or more CE countries.

The research was based on a sample of twelve subsidiaries of German and US companies in the components sub-sector of the automotive industry in Poland, Hungary and Slovenia, preceded by an exploratory study of the sector in each host country. Two companies from each country of origin were selected in each of the three CE countries, as a 2-by-2 comparison allows greater generalisability.

The automotive industry was chosen because of its high level of internationalisation and its importance for FDI in CE economies. FDI in the component sub-sector is particularly dictated by efficiency considerations, as 90% of the production is for export, unlike vehicle final assembly that is more market-oriented and therefore less prone to direct cross-border comparisons. The sample was constructed according to theoretical significance, and not statistical representation. Influential, economically successful companies that are not affected by specific crisis have been selected; these are mostly in the high-technology and high-quality market segments, with the exception of one more low-wage, low-cost segment company in each of the host countries chosen to generate a broader picture of social relations in MNCs in CE. The selection of successful companies as case studies enables a test of the proposition that original company models (from the home country) can be altered without jeopardising productive success, given the research interest in 'best practices' and upper limits to productive success. The case studies have mostly focussed on larger plants (above 500 employees, with the exception of one plant in Hungary, AH2, with 260), with a mix of greenfield and brownfield sites corresponding to the patterns of investment in the three countries: brownfield in Slovenia, mostly greenfield in Hungary, and mixed in Poland. In the Slovenian case, the limited total of foreign investors in the sector required that besides one pure German and one pure US company two 'mixed' cases were selected: companies with a recent past of different ownership, with both Anglo-Saxon and German ownership experiences.

Methodologically, the research was based on in-depth case studies, relying on interviews, document analysis and non-participant observation. Interviews (between ten and fifteen in each case study, for the duration of one hour each on average, all recorded and transcribed unless differently agreed) included a variety of respondents: expatriate managers; local managers; production and line managers; employee representatives (trade unions and works councils); lay employees; local authorities (e.g. city council, labour inspectorate) and industrial relations actors from the neighbouring area. The case studies were carried out in 2004, with some updates in 2005.

5. Findings

In Poland – the largest country – a preliminary exploratory phone survey was carried out, in February-March 2004, among German and US investors in the automotive component sector. The results, based on a response rate of 77% (N: 30), show that trade unions (the only legally foreseen form of workplace employee representation in Poland), exist in 53% of companies. The apparently surprising finding is that trade unions are more widespread in US companies (77%) than in German ones (35%). In fact, the aggregate findings are strongly distorted by other factors, above all size and mode of entry. German investors are more often represented by smaller companies and greenfield sites, which both contribute to the low rate of unionisation (within Germany itself, the small-medium enterprises, the so-called *Mittelstand*, have different industrial relations approaches from large corporations.) But even after controlling for these two factors, the presence of unions is still rarer in German than in US companies, contrary to what might have been expected.

The overall findings from the twelve case studies with reference to the comparative analytical grid are presented in Table 2. Companies are indicated by an acronym of the home (G: German, A: American, M: mixed) and the host (P: Poland, H: Hungary, S: Slovenia) country, and a number. The boxes indicate if there is evidence of intentional transfer of home-country models; or for the mixed cases, whether there is evidence of German (G) or American (A) models.

A first outcome of the comparison is the extent of 'hybridisation', i.e. combination of elements from different models, in the case studies. Naturally, none of the companies corresponds to the 'ideal types' of Table 1: no company has fully implemented a pure American or German model. Most companies show the adoption of home-country models on 4-5 items. The home country does have an effect, but a selective one and often counteracted by other influences. The two 'hybrid' companies have a mix of German and American influences. Two important intervening variables have expected effects within this sample: lower-skill plants are more prone to Americanisation, and German-owned greenfield sites allow a fuller transfer of the German model (the same cannot be said of the US-owned greenfield plants).

A more precise analysis should however look at specific indicators. Home country impact for three variables shows a systematic differentiation: **corporate culture**, **functional flexibility** and **working time flexibility**. German companies rely more on multi-skilling, job rotation, internal mobility, and their preferred form of working time flexibility is the annualisation of working hours. Technical knowledge and past tradition are more stressed, reflecting an enduring specific corporate governance model. In some cases, it is evident that on these dimensions there has been a direct transfer of practices from the home-country. By contrast, US companies tend to rely less on functional flexibility and to achieve working time flexibility through unilateral imposition of overtime and flexible patterns of shiftwork.

On **numerical flexibility** there is some evidence of transfer of home-country models, with four German companies out of five preferring the use of permanent contracts for all or almost all the workforce. However, this does not translate into employment security commitment by all German companies, as local laws make dismissals easier and less costly than in Germany: as a matter of fact, GH2 could recently quickly implement large redundancies to relocate some of the production to Romania, and its labour turn-over, if declining, has not fallen below 8%.

On the other dimensions, it is hard to detect any systematic variation according to home or host country. **Diversity management**, as expected, lacks any formalisation in German-owned operations (where questions on the topic are hardly understood at all), but its presence in US-owned sites is limited to weak, ad hoc forms. AP1 has made an active effort to introduce women into a previously male-only workshop, and its top managerial positions are occupied by women, but none of these developments has been presented as a diversity or equal opportunity initiative. AH2 has made an active effort in diversifying the age of its workforce on the grounds that diversity of work culture would benefit the company, but again this does not seem directly related to any established home-country policy.

Table 2 - Case study summary

	Gp1†	Gp2	Gh1†	Gh2†*	Gs	Ms1	Ms2	Ap1	Ap2†*	Ah1	Ah2†	As*
Control	✓		✓	✓		G	A	✓		✓		✓
Participation	✓				✓	G	A	✓	✓	(✓)	✓	
Culture	✓	✓	✓		✓	G	G	✓	✓	✓	✓	
Teamwork	✓		✓			A	G			✓		✓
Numerical flex	✓		✓	✓	✓	A	A			✓		✓
Pay flex		✓				G	A		✓		✓	✓
Functional flex	✓	✓	✓			A	G	✓	✓	✓		(✓)
Time flex	✓	✓				A	A	✓	✓	✓	✓	✓
Diversity mgt	✓	✓	✓	✓	✓	G	G	✓			✓	

†greenfield site; *low-skill segment

Brackets (✓) indicate transfer which while occurring remains particularly weak or inconsistent.

Control from the headquarters operates through influential expatriates in some German cases, and through very systematic, daily reporting procedures in some US firms, such as AS or AP1. But there are several exceptions to the rule. In addition, there are several experiences of the successful replacement of expatriates with local managers (AP1, AP2, GP1, AH2, GH1, GH2).

On the other three dimensions, the home country has no predictive power at all on what actually happens in the case studies. This includes a dimension traditionally seen as characteristic of national models, **employee participation/industrial relations**, on which the findings from the sector survey in Poland are confirmed: German companies are no more likely than American MNCs to welcome trade union or works council forms of participation, nor are they less likely to use direct participation tools. On **teamwork**, the experiences of transfer are interesting, with links to lean production and job redesign, but there are no systematic links to home-country models. German companies follow the home-country model to the extent that teamwork increases functional flexibility through job rotation, but mostly fall short of giving teams the same autonomy they enjoy in Germany.

Pay flexibility is overall, in this region, closer to 'American' practices of variable, performance-related pay, leading to large pay forks. Most companies, including the German ones, have introduced sophisticated systems of appraisals.

Only one company has a very high degree of conformity with the own ideal type: GP1 corresponds to the German model on all dimensions but pay flexibility, on which high unilaterally-assessed variability seems to be a characteristic of the private economy in Central Europe. The other companies not only depart from the home-country model, but vary in the ways they depart from it. This is where in-depth case studies can help to understand the sources and dynamics of such variation.

6. MNC variation in Poland and Hungary

Some host countries have specific effects in fostering Germanisation or Americanisation on specific issues. Social dialogue appears to be underdeveloped in Poland and Hungary, but stronger in Slovenia. Hungary affects corporate culture in an 'American' way: all companies, whether German- or US-owned, approach the American model on this variable. Slovenia has an effect on culture and diversity management (in a pro-German way), while on time flexibility it has an unexpected pro-Americanisation effect which will be discussed below. Poland is, as expected, the most diverse country (it is both the largest and most permissive), with no clear host-country effect.

A closer look at the host countries allows us to explore how and why MNCs differ within them. Keeping the host country constant, there still are marked differences between German and US-owned companies in Poland and Hungary (a 2-by-2 comparison is impossible in Slovenia). And yet on many variables German and US investors are internally differentiated, notably on their approaches to participation. For example, in Poland the German companies are in theory particularly similar, but differ on five items including participation. In Hungary, it is the two US companies that differ on the participation variable. The following discussion attempts to explain the origins of such variation.

An example of 'German' transfer

Company GP1's apparent near-full implementation of a German model requires closer investigation, in order to assess its source and significance.

The Polish greenfield site investigated was built in 1998 in an area with high structural unemployment and employs about 1,000 people, with plans for further expansion. The importance of the home-country corporate culture is apparent from the status of the German language (commonly used for training and important for career progression), in spite of the company being highly internationalised and knowledge of English being more widespread in Poland. According to the dominant German tradition, German expatriates – including the personnel director – are very important in foreign subsidiaries although their number and role is gradually diminishing.

Workforce recruitment practice is quite striking. Production employees are all men, highly qualified and aged under 32 at the time of recruitment (the current average is 26), while administrative employees are of both genders, almost all with university education, and aged under 35 at the time of recruitment. Such composition is different from that of the German plants, reflecting the labour market power of investors in Poland. All employees are on permanent contracts.

The German production model is clearly visible in the amount of training and its form, including co-operation with local schools, in work organisation, with elected team leaders and daily team meetings, and in industrial relations. In a country where union density is about 15% (and even lower in private sector greenfield sites and among younger employees) GP1 has 90% unionisation, a detailed collective agreement and a sophisticated system of consultation. The union also has consultative power on the appointment of line managers. Both German managers and German trade unions have been influential in establishing such a system, although the collective agreement follows the pattern of Polish collective bargaining. The European Works Council is also very important. Interestingly enough, Polish managers are less enthusiastic than the German ones about extensive social dialogue, which they see as jeopardising their status and slowing down decision-making.

The most direct example of transfer is on working time. With just some adjustments due to different legal regulations the same system of working time flexibility operating in Germany has been introduced in Poland, through a collective agreement, aimed at reducing the risk of redundancies. One noticeable difference from Germany is however the shorter duration of breaks in Poland.

Example: Working time flexibility at GP1

Management proposed to the trade unions the modification of working time in 2003, and after negotiations a collective agreement was signed. The very idea of modifying an employee's working time has been adopted from German solutions Both Polish managers and trade unionists were invited to Germany, so that they could check the actual working of the system and consult with German unions and managers.

Provisions were adapted to Polish legal and economic conditions, with a slightly longer working week in the Polish plant and shorter breaks; the reference period is, exceptionally, twelve months, thanks to the collective agreement's derogation from the Labour Code rule of four months.

The new system involves an individual working time account for an employee. Working time fluctuates depending on production, and if at the end of the reference period it exceeds the agreed amount, the employee is rewarded for working overtime. If working time is shorter, however, employees are not deprived of their basic remuneration. The system thus provides the employee with an undiminished income even in an unfavourable economic situation, in exchange for working time flexibility: the employer is, on the other hand, able to modify the employee's working time; to change shifts, workdays and days off. The system is intended to prevent any need for redundancies.

The tool has been used twice so far – for periods of approximately one month of increased production. It requires settling the system with the trade union and notifying the employees with two weeks notice, and involves a considerable amount of work from the administration.

By contrast, the only dimension on which the company departs from German dominant practice (and, conversely, conforms to Polish reality) is pay. The pay level is high for local standards, but above all it is much more variable than in Germany. Rather than through bonuses (5-15%), variation is achieved through an elaborate system of bi-dimensional classification of jobs, which expands the pay fork (7.5 times between best and worst paid, and 2 times among workers on the same line) and leaves much discretionary power to foremen on how to assess the employees and their jobs. The pay system has been criticised by the trade union for not being transparent, and is undergoing a review toward possible revision.

Examples of departure from the German model

GP2, a factory with 600 employees, also belongs to a large, successful German company, with a long history of 'welfarist' employment relations. Even though it operates in the same country, Poland, its employment practices are in many regards different. This company is more internationalised, attested to by the fact that turnover and employment in foreign subsidiaries is already greater than in Germany. In recent years, employment in German sites has been repeatedly reduced. The company has a multidivision organisation, with the headquarters of some divisions based outside Germany. In spite of references to the company tradition and to its social responsibility, corporate culture is less clearly German than in GP1, with more stress on change. Expatriates are less prominent and more international in their background. Some Polish respondents see no difference between German and Polish work cultures. The business language in use is English, and contrary to practices in GP1 local managers are not expected to learn German, while German managers are required to learn Polish during their secondment.

In terms of industrial relations, the two main trade unions are not fully satisfied with the current arrangements. While there have been no strikes in recent years, collective bargaining over pay has been difficult and Solidarity has refused to sign the last agreement. The other main union has a more co-operative standpoint. At all levels in the plant, from collective bargaining to the team, relations are much more adversarial than at GP1, and there is still no integration into the EWC. However, the absence of smooth forms of indirect employee participation through autonomous representation is not counterbalanced by other particular forms of direct involvement and communication.

More typically German is the organisation of production, with efforts to promote multi-skilling and training including co-operation with local schools through apprenticeships, the form of working time flexibility (although with more overtime than at GP1) and also, unlike at GP1, the pay structure.

A peculiarity of human resources at GP2 is the deep segmentation of the workforce, between a majority of core older, experienced skilled workers, a layer of younger or female workers, and a marginal but important layer of contract workers, 'leased' from job agencies. The company has shown commitment to the long-term employment of core workers during recent restructuring and modernisation processes. By contrast, the outer layer suffers from a highly precarious status, although after a recent change in Polish law it no longer suffers from worse pay, social security and working conditions. Unlike GP1 (which immediately offers permanent contracts to new employees), GP2 proceeds through two preliminary steps of agency work and then temporary contracts for up to two years (a common practice among Polish employers). Such practice is perceived negatively by both trade unions and employees.

Factors behind different German strategies

One possible explanation of the differences between the two German case studies in Poland might relate to the different mode of entry: greenfield as against brownfield. The differences also reflect differences at the origins. Interviews at the headquarters confirm that GP1 strategies are very specific: ‘it is our company model, not the German one’. Conversely, a works council officer in Germany reveals that the mother company of GP2 as a whole has been departing from the traditional German model, through the building of non-union sites abroad, high working time flexibility, extended use of contract workers and strong internationalisation of its structure and corporate culture.

German investors, in fact, differ in the form of their internationalisation. GP1 is vertically integrated and based on cross-border production, involving higher standardisation of employment practices and the defence of typically German core competencies and reputation. GP2 corresponds to a different group of German companies, multi-divisional and with high competition among plants for production mandates, implying more pressure on costs, a lower organisational and technological harmonisation, and the concentration of certain production in lower-wage countries. While GP1 seems to aim at a ‘German revival’ model, GP2 represents a form of ‘globalised German model’.

The hypothesis of segmentation and disintegration within the German model is confirmed by the two case studies in Hungary. **GH1**, apparently close to GP1, is actually quite different in its industrial relations. A large factory with 5,000 employees, the Hungarian plant has been used for innovating and experimenting rather than to transfer a successful home model. It was even conceived as a non-union plant, and union recognition took place only after seven years of confrontation, pressure by IG Metall from Germany, and a change of management. In recent years, an elaborated system of consultation and implementation has been implemented, but, rather than as an investor’s choice, as a compromise following changes in the labour market situation (with shortages and high turn-over) and trade union organisation campaigns. **GH2** is even further from the ideal German model, but this is also the only German plant in the sample with a prevalence of low-skill and female workers; the investor is a family-owned, if large, company, and therefore different from the other, larger companies. Here, overtime is a constant feature and dense social dialogue was introduced only after eleven years of rather adversarial industrial relations.

Such factors of diversification – organisational, technological, corporate – should be kept in consideration when assessing the potential impact of foreign investors on employment relations.

Limits to Americanisation in US-owned plants

Variation among US companies is less surprising than among German companies, as the US business system is itself more heterogeneous. However, their high degree of centralisation, hegemonic power, and often ethnocentrism should produce a high degree of practice transfer abroad. Investors’ employment strategies seem however to be changeable and often divergent. This may be observed clearly in the Hungarian case studies.

AH1 is a sizeable, old factory in Budapest, taken over by a large US MNC soon after the fall of communism. The production is under strong international cost competition, especially from China. As a result, unlike in the German case studies mentioned above, the direct comparators for its Hungarian employees tend to be their Chinese rather than western counterparts. Management is entirely Hungarian, but interviews show an impressive degree of assimilation of US business culture. While under communist times managers could be appointed through internal promotion from production, now they are all university-educated and culturally more distant from blue-collar workers.

In the early 1990s AH1 was shaken by a massive restructuring process with the loss of thousands of jobs, although relatively few compulsory redundancies. Since then, employment has been rather stable, and a program, jointly managed with the trade union, of internal mobility among different plants and workshops reduces the risk of redundancies. The workforce is segmented in a similar way to that of GP2: an 80% core of skilled, experienced and, after restructuring, selected workers along with a 5-10% layer of temporary employees and a 10-15% layer of contingent unskilled workers leased from manpower agencies. This strategy is supported by the union as the only economically viable way to ensure security for the core workforce. Pay is also largely based on seniority criteria that benefit older employees. Training is extensive and takes place on-the-job, on the grounds of the specific labour process, but in practice leads to a high degree of multiskilling.

With a strong company trade union (85% membership), industrial relations are institutionalised, with monthly meetings between management, union and works council, and recurring, orderly collective bargaining. The union benefited from support and advice from the AFL-CIO in the Unites States. Industrial relations at AH1 are therefore simultaneously ‘American’ in so far as they are decentralised at the plant level and focussed on pay, but ‘European’ in the degree of consultation and of involvement of the works council.

The main source of complaint (and of relatively high turn-over) among employees is the organisation of working time, with an arduous system of shift work (continuous production) and frequent overtime. By contrast, the pay structure is rather rigid, with basic salary accounting for 84% of remuneration and the rest variable (although under trade union control).

AH2 shows a different picture. The plant is in an old industrialised region, which since the early 1990s has been in deep economic recession. The Hungarian factory is devoted to a very specific, highly skilled and labour intensive production. Because of the importance of labour costs in the production costs (about 30%), the plant has absorbed production previously located in Britain and in Belgium and no longer viable in those countries. It is now the leading factory in Europe in its production profile.

The site is greenfield and was established in 1999 as a state-of-the-art factory, employing 250 people (and expanding). In the first years, the strategy was clearly focussed on labour cost reduction. Pay was at the minimum wage level, despite all employees being highly skilled and experienced (the cream of the old heavy industry), and often with university education. None of the additional benefits which are common in Hungary, such as support for commuting or for family recreation, were available. Production has a craft character, but work organisation followed a lean production approach developed in the US and implemented by foreign managers and experts, and is extremely flexibile in many regards: job rotation, multi-skilling and total quality control.

The stress involved by flexible organisation and working time, and discontent with extremely low pay, resulted in high turn-over and an attempt to establish a union. As the plant became increasingly unmanageable, the foreign director was replaced by a local one. Many changes followed. Pay was increased and a number of customary social benefits introduced. The workforce was rejuvenated. The union was recognised as a negotiating partner and even perceived as a business partner for employee information and communication. Yet many production practices remain US-based, and pay while increasing has become more variable and the subject of individual assessments by foremen.

Factors behind different American strategies

The cross-regional and cross-time variety of the situations at AH1 and AH2 points to the importance of power balances and local labour market conditions. In AH1, operating in the tight labour market of Budapest in an area of strong traditions of labour organisation, management had to accept early on the role of trade unions. In AH2, a very weak labour market made the investor initially opt for a low-wage and no-concession policy on a greenfield site. The strong union traditions of that formerly heavily industrialised region however prompted employee activation as soon as the first signs of labour market improvement appeared.

Such differences among brownfield and greenfield sites, as well as on the grounds of labour market conditions, are confirmed by the US-owned cases in Poland. **AP1**, a brownfield site in a large city, has rather influential trade unions. The visible pressures for tight financial control from the US headquarters are therefore mediated by a local production culture. **AP2**, by contrast, is a greenfield non-union site in a smaller town, and here direct participation practices have been introduced. The number of employees is smaller at just under 500, though.

Example: non-unionism at AP2

One of the employees remembers that during his job interview the interviewer told him there *were not and would never be* trade unions in the plant. Yet, the worker quoted does not perceive the lack of trade unions as a hindrance. Some individuals in the plant had wanted to establish a trade union there, but found no support. Among employees, trade unions are often associated with the old system, and a case of a local company that went bankrupt because of allegedly excessive union influence is referred to. Other employees argue that unions are appropriate in rich societies (in the West), but not where unemployment is high: a luxury the Poles cannot afford.

Personnel issues are dealt with through non-union channels. The only representation of staff consists of three representatives elected for a period of 5 years by the general meeting called by the directors. In theory, the representation is only supposed to allocate funds from the social fund (according to Polish law). In practice, though, it serves as an intermediary between workforce and directors.

Nonetheless, many issues are solved by employees by themselves, without intermediaries. The plant is small enough to facilitate making an appointment with a manager, director or even the general director. The production department holds daily meetings for leaders during which current issues are discussed. The whole production personnel of the first and second shifts meet at a 15-minute general meeting once a week, followed by a 30-minute meeting with leaders. Special meetings are held for all personnel at Christmas and Easter. Some managers believe there are too few such team-building meetings. There are also suggestion schemes. Whereas employees are well-informed on issues concerning their respective production lines, they feel information on the general standing of the plant seems to be rather general. Managers have heard about the necessity of electing a representative to the European Works Council, but staff representatives hitherto have not thought about a solution to the problem.

The well-known variety of US companies depending on their regional origins, timing of expansion, ownership history, and degree of centralisation (Ferner 2000) is not the only reason of variation among subsidiaries in Central Europe: local conditions can, over time, mediate US-centred influences.

7. The effects of local institutions: the Slovenian case

Slovenia is exceptional among the new EU member states for the importance of its institutional and associational regulations, which make it more similar to the Austrian than to the CE post-communist model. This might be expected to constrain foreign investors' motivation. Yet, in spite of a relative high level of regulatory rigidity, among all the case studies possibly the best example of Americanisation is found in Slovenia, at **AS**.

At first sight, the company has adapted to the Slovenian environment. The investor is, consistent with the Slovenian business system and unlike the cases observed in Poland and Hungary, actively involved in local business associations and is covered by a sector-level collective agreement. Its corporate culture is strongly local and respondents repeat that 'here this is a Slovenian, not an American company'. Headquarters'-developed training programs are rejected in favour of made-in-Slovenia ones. Industrial relations respect social dialogue with both works councils and trade unions being regularly consulted, echoing the self-management tradition of Yugoslav socialism, although one minority trade union has a more adversarial stance. The company has actually more advanced co-determination than the German and hybrid ones covered by the study, which confirms how the country of origin does not allow one to predict approaches to trade unions. The importance and complexity of local regulations and customs is stressed in particular by local managers, often as a knowledge resource to gain more discretion from the headquarters.

Yet a closer look shows that in the area of work organisation American practices have been implemented in a thoroughly way. Shift work is rigid and burdensome on families, and the unilateral use of overtime is frequent and with no notice. Overtime, as often happens in Central Europe, is accepted by employees and trade unions (but not by the minority union) as a necessary form of income supplement. The share of temporary employment among the workforce (about 900 employees) is 10% and in line with the sector's average, but there are reports of a particular pressure exerted on temporary employees. The company however does not use contract workers because of the low reliability of such forms of employment. The share of variable pay is very high, at around 30-40% of the total payslip, including overtime and individual assessment bonuses, and management would like to make pay even more performance-related.

The other three case studies in Slovenia, in spite of different ownership forms, confirm a picture of high work flexibility within rather stable and consensual industrial relations. Working time is highly flexible in all companies, and in **MS2** the share of temporary employment is also quite high at 14%, and variable pay exceeds 20% of total remuneration.

Overall, the findings, when compared to those of Hungary and Poland, provide a possible explanation to an apparent Slovenian paradox: macro rigidity and a gradual, rather than radical, approach to the transition to a market economy has been associated with better economic performance than that of the other, more neo-liberal, transition economies, and has allowed excellent results in flexible specialisation. Macro-rigidity in Slovenia, rather than hampering development, has fostered a faster increase in productivity and also micro-flexibility. The consensual, socially cohesive pattern of Slovenian transformation has relied on the tacit acceptance of an exceptional degree of work intensification and of new forms of flexibility as the cost of economic growth.

One way in which consent has been produced is through the segmentation of the workforce and a 'selective' implementation of flexibility, which is a strategy shared by companies in Poland and Hungary too (e.g. GP2, AH1). But an additional factor which is specific to Slovenia and can only explain its distinctive economic success is the existence of comprehensive regulations with regard to collective bargaining coverage and rights of information and consultation of employees. It is the statutory right of voice of employees, and the degree of information and security, that seems to have produced the level of trust and acceptance of change facilitating the re-organisation of production. Slovenia has developed in this way its own efficient form of the 'flexicurity' advocated by the EU. It is not surprising, then, that managers in the Slovenian case studies often express strong appreciation for Slovenian social dialogue and express scepticism about current political plans of deregulation.

Such explanation is confirmed *a contrario* by the case studies in Hungary and Poland. Here, MNCs have the option of unilateral management and restructuring. Yet the companies that tried to implement change unilaterally (e.g. AP1, GP2, AH2, GH1, GH2) relatively soon met social sustainability barriers. Insecurity and mistrust developed. Even if a trade union response is rather rare due to organisational weakness, other forms of resistance and notably very high labour turn-over emerged, making the factories hard to manage. Eventually, in most cases investors had to change strategy and implement some form of independent social dialogue. Excessive macro and regulatory flexibility had caused micro-level rigidities and constraints in the converse way to which macro rigidity had allowed micro flexibility in Slovenia.

Conclusion: the hybridisation of HRM models

The overall picture emerging from MNCs in Central Europe is one of contingency and variety where country-of-origin models can be detected on a few dimensions only: corporate culture, working time, functional flexibility. The implementation of country-of-origin models is much less evident for industrial relations or pay.

A number of different factors must be considered in order to account for employment practices of foreign investors, including mode of entry, combination of productive factors, transnational influences, investors' motivation. The research has shown that even within the same economic sector there is a high degree of variety and of dynamic host-country effects. The companies studied are all, in various ways, economically successful: they have been able to implement extremely efficient production in Central Europe despite the absence locally of several of the productive models' original components.

Some general features are emerging in the expanding export-oriented industry in Central Europe. Labour flexibility is high on all dimensions, despite some recent re-regulatory efforts in part promoted by the EU (e.g. on temporary employment, working time, information and consultation rights). Sunday work is commonplace in all three countries. As some respondents say, flexibility in post-communist countries is attitudinal rather than regulatory: even when legal curbs on dismissals may appear analogous to western European ones, employees are constantly aware that they should not take their jobs for granted. The experience of the transformation crisis in the early 1990s and current labour market conditions affect the actual power balance in workplaces.

Besides being more flexible than their western counterparts, all factories investigated have quickly achieved world class productivity and quality in only a few years. In no way can they be considered as backward or marginal: in some cases these factories have established company records of quality or productivity and have even become benchmarks for western plants. In terms of personnel management, this is reflected by sophisticated forms of Human Resource Management. Managers, whether expatriates or local, mention state-of-the-art programs of continuous improvement, outsourcing, internal mobility, appraisal, and selection. At the same time, and this might be seen as an aspect of Americanisation, HRM seems to have a low status, and personnel chief officers do not have the same authority of managers responsible for production and finance. The fact that very often personnel managers are young women, if very well educated, may have a symbolic significance in CE local environments.

The country of origin is not irrelevant, however. First of all, there is some partial distinctiveness of German and US companies, as shown by table 2. The variation of both German and US companies is additionally affected by their degree of internationalisation: globalisation is a process and some companies (such as GP2, AH1, AS) are more affected than others (such as GP1, AP2, AH2, GS). More vertically integrated companies, such as GP1 or AS, do transfer more of their employment practices.

The research sheds interesting light on the actual weight of different institutions. It is possible to distinguish between primary (necessary) and secondary (additional and 'optional') traits of original productive models: some employment practices vary more than others.

In the case of **German companies**, it is the industrial relations pillar of the productive model which in general is not transferred (with the notable exception of GP1), or is only partially transferred under host-country pressure and as a compromise (as at GH1 and GH2). By contrast, a strong constant and distinctive element of German companies as compared to the American is the approach to functional flexibility and skill creation. These appear to be the 'hard core' of a German productive approach. While both American and German employers may make considerable efforts in training, it is only the German companies that invest highly in the development of transferable skills, promote employees' further education, and establish strong co-operation links with local schools and universities including apprenticeships and tailor-made courses. In Hungary and Poland, this takes place differently than in Germany, where vocational education has a strong associational character through the co-operation between Chambers of Commerce and public powers. In Poland and Hungary the associational pillar is missing and there is no evidence of German companies trying to promote its creation. Training and educational policies are therefore company-based but nonetheless highly developed. As a consequence, employers face the risk of competitors' 'poaching' of trained workers, and often try to address it with the development of internal labour markets, limiting the extent of numerical flexibility. The situation is very different in Slovenia, where the dense associational environment has allowed the creation of advanced comprehensive co-operation between automotive companies and educational or research institutions through the Slovenian Automotive Cluster.

American companies, which vary considerably, in a rather pragmatic way, in their industrial relations arrangements, tend to consistently implement unilateral forms of flexibility including overtime, appraisal-based variable pay and temporary employment. Employment practices are more constantly under cost scrutiny and financial accountability. The core features of their productive model are 'on-the-job' specific training and working time flexibility through overtime. In the core aspects of the labour process, then, companies from different countries still tend to produce the necessary skills and deployment of labour in distinctive ways. While German companies tend to rely on multiskilling and functional flexibility, their American competitors focus more on shop-floor flexible adaptation of labour deployment to productive requirements. It is these forms of organisation that seem most embedded in corporate cultures and routines.

In both American and German companies, these specificities in terms of functional and working time flexibility solutions are associated with the transfer of elements of home-country corporate cultures: the German ones stressing the common technological and industrial culture, the American emphasising the pre-eminence of financial calculus and change.

In conclusion, neither pure ‘Germanisation’, nor – in spite of the absence of strong industrial relations institutions – pure ‘Americanisation’ emerge as likely outcomes in Central Europe. In all three countries, the dynamic situation and shifting power balances modify in different ways American and German influences, encouraging often innovative solutions. As limits to flexibility emerge in Central Europe for reasons of social sustainability, but comprehensive industrial relations institutions remain absent everywhere but in Slovenia, internal labour market strategies and micro-corporatist practices of social dialogue may well become viable strategies for foreign investors. Attention to organisational arrangements will become crucial.

References and further reading

Boyer, R., Charron, E., Jürgens, U. and Tolliday, S. (eds), 1998: *Between Imitation and Innovation. The Transfer and Hybridization of Productive Models in the International Automobile Industry*, Oxford: Oxford University Press.

Dickmann, M. 2003: Implementing German HRM abroad: Desired, feasible, successful?, *International Journal of Human Resource Management*, 14, 2, 265-83.

Edwards, T. and Ferner, A. 2002: The renewed 'American Challenge': a review of employment practice in US multinationals. *Industrial Relations Journal* 33, 2: 94-111.

Fichter, M. 2005: The German Way: Still Treading the Path of Institutionalized Labor Relations?. In S. Beck, F. Klobes, C. Scherrer (eds.), *Surviving Globalization*. Amsterdam: Kluwer Academic Publishers.

Gradev, G. (ed) 2001: *CEE countries in EU companies’ strategies of industrial restructuring and relocation*. Brussels: ETUI.

Jacoby, S. 2005: *The Embedded Corporation. Corporate Governance and Employment Relations in Japan and the United States*. Princeton: Princeton University Press.

Katz, H. and O. Derbishire 2000: *Converging Divergencies. Worldwide Changes in Employment Systems*. London: ILR.

Marginson, P. and Meardi, G. 2006: EU Enlargement & the FDI Channel of Industrial Relations Transfer. *Industrial Relations Journal*, 37, 2, 97-110.

Meardi, G. 2006: Multinationals’ Heaven ? Worker Responses to Multinational Companies in Central Europe. *International Journal of Human Resource Management*, 17, 8, 1366-78.

Meardi, G. and Tóth, A. 2006: Who is Hybridising What? Insights on MNCs’ Employment Practices in Central Europe. In A. Ferner, X. Quintamilla and C. Sánchez-Rundes (eds) *Multinationals and the construction of transnational practices*. London: Palgrave.

Simoneti, M., Rojec, M. and Gregorič A. 2004: Privatization, Restructuring, and Corporate Governance of the Enterprise Sector. In M. Mrak, M. Rojec and C. Silva-Jáuregui (eds) *Slovenia. From Yugoslavia to the European Union.* Washington: The World Bank, 224-243.

Stanojević, M. 2005: The Slovenian Pattern. In D. Vaughan-Whitehead (ed) *Working and Employment Conditions in the New EU Member States*. Geneva: ILO.

Streeck, W. 1987: The uncertainties of management in the management of uncertainty. *Work, Employment and Society*, 1, 3, 281-308.

Tóth, A. 1999: Building Union Organization at Autotransplants in Hungary. In J. Waddington (ed), *Globalization and Patterns of Labour Resistance*. London: Mansell.

Whitley, R. 1999: *Divergent Capitalisms: The Social Structuring and Change of Business Systems.* Oxford: Oxford University Press.

Whitley, R. 2001: How and Why are International Firms Different? In G. Morgan, P.H. Kristensen and R. Whitley (eds) *The Multinational Firm: Organizing Across Institutional and National Divides*. Oxford: Oxford University Press.

Project partners

United Kingdom
Dr Guglielmo Meardi (co-ordinator)
Prof. Paul Marginson
Ms Val Jephcott (research secretary)
Industrial Relations Research Unit
Warwick Business School
Coventry CV4 7AL
Phone +44-(0)24-765-22645, -24268
Fax +44-(0)24-765-24656
Email:
Guglielmo.Meardi@wbs.ac.uk
Paul.Marginson@wbs.ac.uk
Val.Jephcott@wbs.ac.uk

Germany
Dr Michael Fichter
Otto-Suhr-Institut
Freie Universität Berlin
Ihnestr. 26
14195 Berlin
Phone +49-(0)30-838-55035
Fax +49-(0)30-838-55042
Email: mfichter@zedat.fu-berlin.de

Poland
Mgr Marcin Frybes
Instytut Adama Mickiewicza
ul. Wiejska 12A
02490 Warszawa
Phone +48-22-6282411
Fax +48-22-6282416
Email: mfrybes@iam.pl

Hungary
Dr András Tóth
Institute for Political Science
Hungarian Academy of Sciences
H-1399 Budapest, Pf. 694/115
Phone +36-1-2246731
Fax +36-1- 2246721
Email: tothand@mtapti.hu

Slovenia
Prof. Miroslav Stanojević
Faculty of Social Sciences
University of Ljubljana
Kardeljeva pl. 5, P.O.BOX 2547
SI-1001 Ljubljana
Phone +386-1-5805-221
Fax +386-1-5805-213
Email: miroslav.stanojevic@fdv.uni-lj.si

The Industrial Relations Research Unit

The Industrial Relations Research Unit (IRRU) embraces the industrial relations research of members of the University of Warwick Business School.
IRRU has a membership of 20 academic staff which makes it one of the largest and one of the best-regarded centres in the field. We aim to address the rapidly changing world of employment through independent, in-depth and theoretically informed empirical research.
www.wbs.ac.uk
http://users.wbs.ac.uk/group/irru/

Acknowledgements
The research has benefited from the committed co-operation of local experts: Adam Mielczarek (Ośrodek Badań Lokalnych), Matija Rojec and Martina Trbanc (Ljubljana University), Anna Horváth (Central European University).
The IRRU is grateful to all companies, organisations and people who have devoted their valuable time for the success of the research project.
In addition to the ESRC, the support of British Academy, Polish Academy of Sciences, Hungarian Academy of Sciences, Slovenian Academy of Sciences and Arts is gratefully acknowledged.

Warwick, December 2005