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Marta Kahancová

**Corporate Values in Local Contexts**

**Work Systems and Workers' Welfare in Western and Eastern Europe**

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for the Study of Societies

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Max-Planck-Institut für Gesellschaftsforschung, Köln

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## **Abstract**

Increased international competition poses challenges to companies' organizational practices, including human resource management. For multinational companies operating simultaneously in diverse local conditions this challenge implies a decision between either opting for universal best practices or adapting their employment strategy to differing local standards in host countries. What influences whether work practices are similar or differ when deployed in differing conditions? Why are some companies committed to their workers' welfare while others are not? This paper attempts to answer these questions by studying work practices, namely work systems and fringe benefits, in a Dutch multinational company (MNC) and its manufacturing subsidiaries in Western and Eastern Europe. Evidence suggests that the observed patterns are best explained by the interplay of three factors. Rational economic interest, company values, and local institutions yield subsidiary work practices that are embedded in, but not adapted to, local standards. The MNC's value system accounts for the fact that generous benefits are offered without a direct relation to the company's profit maximization and without external societal and institutional pressures to provide such benefits.

## **Zusammenfassung**

Der zunehmende internationale Wettbewerb stellt die Unternehmen speziell im Personalmanagement vor große Herausforderungen hinsichtlich ihrer organisatorischen Praktiken. Multinationale Konzerne, die zur gleichen Zeit unter unterschiedlichen lokalen Bedingungen arbeiten, müssen sich für universelle „best practices“ oder dafür entscheiden, ihre Personalpolitik an die verschiedenen lokalen Gegebenheiten anzupassen. Was sind die Einflussfaktoren, die bei diesen Entscheidungen eine Rolle spielen? Warum zeigen einige Unternehmen eine hohe soziale Verantwortung für ihr Personal und andere nicht? Diese Fragen sollen auf der Basis von Analysen der Produktions- und Arbeitsbedingungen und der vom Unternehmen gewährten freiwilligen Zusatzleistungen in einem niederländischen multinationalen Unternehmen mit Niederlassungen in West- und Osteuropa beantwortet werden. Die Ergebnisse zeigen, dass die beobachteten Muster sich am besten durch ein Zusammenspiel von drei Faktoren erklären lassen: das rationale wirtschaftliche Interesse des Unternehmens, sein Wertesystem und die lokalen Institutionen. Diese Faktoren fließen in die Produktions- und Arbeitsbedingungen der Niederlassungen ein, die zwar in lokale Standards eingebettet, aber nicht an sie angepasst sind. Das Wertesystem des multinationalen Unternehmens ist ausschlaggebend dafür, dass großzügige Sonderleistungen gewährt werden. Es besteht weder ein direkter Zusammenhang mit dem Gewinnmaximierungsziel des Unternehmens, noch sind es externe gesellschaftliche oder institutionelle Zwänge, die dieses Verhalten bewirken.

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## Introduction

Globalization and intensified transnational competition has led to the introduction of a variety of new organizational practices. Especially in large firms, including multinational companies (MNCs), attention to improved company performance is no longer limited to the most effective cost management, but involves an interest in developing committed and highly performing employees (Jacoby 2005; Dobbin 2005). In relation to this, the relevance of work practices that foster sources of creativity and teamwork and reward personal initiative has been growing (Dessler 1999; Nolan/O'Donnell 2003). Advancing organizational practices beyond labor cost control, modern human resource management (HRM) integrates a variety of *soft* practices that motivate employees and look after their social welfare in order to stimulate commitment to company goals. Other than reflecting overall business goals, evidence confirms that successful implementation of work practices requires attention to workers' *interests* (Peterson 1993), and to specific national cultural and organizational aspects in which work practices are applied (Maurice/Sorge 2000; Michailova 2002).

However, evidence has shown that instead of building close relationships and caring for the workforce, a significant number of organizations in the US have moved to market-like, distant and transactional relationships with employees (Cappelli 1999; Pfeffer/Veiga 1999; Pfeffer 2006). In the European context this trend is not as obvious, because the utilization of labor and relationships between firms and their employees are to a great extent entrenched in long-term employment commitments, consensual work organization, and institutionalized industrial relations (Ferner/Quintanilla 1998; Bluhm 2001). Nevertheless, do American developments suggest that European firms, after being exposed to liberal market conditions, would tend to disembed themselves from their commitments?

The above question is particularly relevant for MNCs that operate in different countries and simultaneously interact with different institutional settings and actors therein. The focus in this paper is on MNCs in Western Europe and Central and Eastern Europe (CEE), two regions with distinct institutional conditions. MNCs have been successfully operating in Central and Eastern Europe for over a decade, and many studies have investigated whether they export home-country organizational practices to CEE – a region that is more liberal on company practices and thus closer to a liberal market economy (Whitley et al. 1997; Danis 2003; Bohle/Greskovits 2004; Meardi 2006).

While not wishing to undermine the explanatory relevance of the firm's rational strategies and of external societal and institutional influences on adopted work practices, this paper highlights yet another important factor in understanding MNC strategies towards employees – company values. The aim is to show how MNC values interact with desired profits and competitiveness as well as host-country diversities in Western and Eastern Europe. Acknowledging institutional variation in the labor laws, industrial relation systems and common HRM practices operating in these regions, I document and

compare selected work practices (work systems and fringe benefits) in two Western and two Eastern European subsidiaries of a Dutch MNC. The findings imply that interaction between rational interest, company values, and local institutions yields workplace practices that are embedded in, but not adapted to, local standards. A tight value system of the MNC accounts for the fact that generous benefits are offered despite the lack of evidence that it pays off for the company's market success and the lack of external pressures to provide such benefits.

The paper is structured as follows. The first section discusses what particular work practices are being explored, and the possible explanations that are considered. In the second section I provide empirical evidence on work systems and fringe benefits in the company subsidiaries studied. The third section compares practices across the subsidiaries and relates them to relevant local standards in each case. The fourth section analyzes potential explanations and induces the overall argument. The fifth section draws conclusions.

### **Conceptualizing work systems, worker welfare and their determinants**

A conceptual clarification of the work practices and explanatory processes studied in this paper derives from the existing literature. The majority of empirical studies of European MNCs focus on institutionalized aspects of work practices that are part of a formal employment contract (Marsden 1999). These include working time, employment flexibility, vocational training, wages, and collective bargaining (Gallie et al. 1998; Ortiz 1999; Bluhm 2001; Marginson/Meardi 2006; Meardi/Tóth 2006). Such orientation of the literature leaves less formalized aspects of management-worker interaction (i.e. communication and informal distance between managers and workers, company commitment to worker welfare, and managerial control) not sufficiently explored at the workplace level. Nevertheless, these are equally important for understanding MNC behavior and openness to cooperative interaction with workers and worker welfare in different local contexts. For this reason, this paper is a comparative study of work systems in four subsidiaries of a MNC in Western and Eastern Europe. Work systems are distinctive patterns of interconnected characteristics of task organization and control, workplace relations between social groups, and employment practices and policies (Whitley 1999). Relevant work system characteristics are listed in Table 1.

The second aspect of work practices that I investigate concerns non-work-related social welfare provisions, or fringe benefits, for workers in the subsidiaries. These supplement managerial practices and individual working conditions formalized in an employment contract, and they interact with particular types of work system. Through this function, the benefits contribute to more favorable or less favorable working conditions. For workers, generous fringe benefits mean a higher social welfare; for the employer, they

Table 1 Work systems

Characteristics	Work system type				
	Taylorist	Delegated responsibility negotiated	paternalist	Flexible specialization artisanal	patriarchal
Task fragmentation	high	low	low	low	low
Worker discretion and involvement	low	high	considerable	high	limited
Managerial control over work organization	high	some	considerable	some	high
Separation of managers from workers	high	low	variable	low	high
Employer commitment to core workforce	low	considerable	high	limited	limited
Rewards tied to	standardized jobs	skills	personal performance and abilities	skills and personal evaluation	personal evaluation of performance

Source: Whitley (1999: 92).

mean higher costs and investments in building commitment to workers. At the same time, fringe benefits facilitate worker motivation, participation, commitment to company goals and organizational efficiency, and they can therefore be beneficial for the company also (Heller et al. 1998; Deery/Iverson 2005). Generous fringe benefits tend to be offered in paternalistic companies that attempt to achieve their profits and market position through a committed workforce (Stoop 1992; Pfeffer 2006). In contrast, a company aiming at short-term profit maximization through exploiting workers' skills is reluctant to offer generous benefits (Hyman/Mason 1995; Deery/Iverson 2005). In Western Europe, the coordinated market economy secures an extensive institutionalization of benefits and thus creates external pressures on companies to provide them (cf. Hall/Soskice 2001; Dickmann 2003; Mailand/Due 2004; Meardi 2006). In liberal economies, including CEE countries, companies are driven to provide benefits on a competitive basis when other firms also provide them. Thus, a great proportion of fringe benefits depends on the market or on a voluntary decision of the company to grant them to workers.

The two regions studied show distinct economic and institutional conditions, in terms of differing unemployment levels, the position of trade unions, established work patterns, and effective motivation practices (Whitley et al. 1997; Sagie/Koslowsky 2000; Meardi 2002; Danis 2003; Michailova 2003; Kohl/Platzer 2004). In the West, workers expect long-term employment with set working hours and good working conditions. A strong collective representation of worker interests and a collective spirit among Western workers is not as evident in CEE, where workplace competition and the use of performance-related pay are greater. In CEE, probably as a result of economic hardship and unemployment since 1989, people value their jobs and are willing to accept lower pay and worse employment conditions than workers in Western workplaces (Kahancová 2006). Therefore, CEE presents a more market-driven institutional context for building

commitment to workers compared to Western Europe. The empirics reveal whether the MNC studied has taken advantage of these differences and adapted to local standards in CEE, disembedding itself from its work practices in Western Europe.

In the empirical section of this paper I explore work systems and fringe benefits in four MNC subsidiaries in Western and Eastern Europe. Next, I categorize work systems according to Table 1 and compare the findings across different subsidiaries as well as with the practices common locally in each host country. In an attempt to explain company behavior in relation to work systems and fringe benefits, I investigate three possible explanations. First, I discuss the company's rational economic strategy of diffusing best practices in search of international competition and profitability (Martin/Beaumont 1998; Paauwe/Boselie 2005). Second, I question the influence of local conditions and institutional constraints on MNC behavior (Maurice/Sorge/Warner 1981; Luthans/Marsnik/Luthans 1997; Ferner/Quintanilla 1998; Maurice/Sorge 2000). Third, I pay attention to MNC values and beliefs about a socially accepted way of running a company that may alter managerial behavior towards workers regardless of the business strategy and external constraints (Bartlett/Ghoshal 2002; Pfeffer 2006).

First, in a rational economic perspective, a company is expected to subordinate all its actions to its single goal of profitability (Turner 1991). This means having clearly structured preferences and implementing best work practices that are exogenous to the local social context in which company behavior takes place (Rubery/Grimshaw 2003: 28). A consideration of costs, including those of fringe benefits and other work practices, is central in the decision about company behavior. An implication for work practices is that they should be similar across the MNC subsidiaries if this is relevant for the company's business strategy. Cappelli (1999) argued that the striving for global competitiveness in companies is the main factor accountable for the requirement to lower costs, including labor costs and thus worker benefits. Deriving from this argument, generous benefits and worker participation in management decision-making are provided only if they directly improve profitability (Sagie/Koslowsky 2000; Deery/Iverson 2005).

Second, local societal and institutional pressures, or local isomorphism, are countervailing forces to the company's universal rational economic strategy driving subsidiary work practices. Instead of opting for universal best practices, local factors constrain MNCs and encourage them to behave like other employers in a given host-country environment (Ferner/Quintanilla 1998). External local influences thus push the MNC to adapt to standard practices in a given society and institutional setting (Maurice/Sorge/Warner 1981; Dore 1991; Streeck 1992; Soskice 2000). This implies that the MNC will adopt work systems and fringe benefits similar to other companies in Western and Eastern European contexts. In other words, European MNCs maintain their commitment in Western Europe because of institutional pressures; in CEE, they are expected to foster a market-like relationship to workers with fewer non-wage benefits, buying labor for money in an exchange that can be terminated by either side for any or no reason (Pfeffer 2005: 8).



The third possible explanation of work practices and related company behavior are company values, defined as broad tendencies to prefer certain states of affairs over others (Hofstede 1981). Values are formed in a path-dependent administrative heritage of doing things in an organization (Bartlett/Ghoshal 2002) and can therefore account, independently of the company's economic goals, for the decision whether to build commitment to workers via work systems and benefits or to leave workers out of the organization's boundaries and develop a more exploitative and market-like relationship (Williamson 1975; Pfeffer 2006).

In the analysis I evaluate the explanatory relevance of the factors outlined for observed work systems and fringe benefits. Other than focusing on each explanatory factor individually, I elaborate the link between rational business interest and company values, values and local conditions, and the business interest and local conditions. The aim is to identify which of these factors are important, and how exactly they matter for MNC behavior towards workers through work systems and fringe benefits.

Evidence for this paper has been collected in Electra,<sup>1</sup> a leading Dutch MNC in the electronics sector. The company was established in late nineteenth century and experienced a gradual expansion abroad. It maintains its long-term reputation of responsiveness to local conditions, especially in HRM decentralization (Dronkers 1975). I focus on the work systems and fringe benefits of production workers in four Electra factories located in Belgium (hereafter EBE), France (hereafter EFR), Poland (hereafter EPL) and Hungary (hereafter EHU). These factories are among the key employers in relevant local conditions and are comparable in their products, position within the MNC's corporate structure, and relation with headquarters. Despite the presence of expatriates in management, all HR managers were locals. Case study methodology involved 114 detailed face-to-face interviews with managers and employee representatives (trade unions and works councils) in the factories, at the headquarters in each host country, and at corporate headquarters.

### **Work systems and fringe benefits in Western and Eastern Europe**

The similarity of the factories studied, because they are all part of one MNC, produce similar products and have a similar strategy for wages and employment flexibility, on the one hand, and the differing host-country laws, industrial relations systems and local work conventions, on the other, allow us to control for corporate influences and, at the same time, explore MNC behavior towards production workers under various conditions. EBE is located in a highly industrialized region with many employment opportunities. EFR benefits from the region's relatively high unemployment and availability

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1 The name of the company is a pseudonym.

of temporary agency workers. EPL's conditions are characterized by very high levels of unemployment (affecting mainly unskilled workers) despite the presence of several MNCs and thus job opportunities. EHU faces a tight labor market, which forces the factory to develop innovative ways to secure workers' commitment.

An analysis of interview information and company documents reveals that the factories demonstrate both similarities and differences in work system characteristics (see Table 2).

Table 2 Work systems in Electra factories

Characteristics	EBE	EFR	EPL	EHU
Task fragmentation	low	low	low	high
Worker discretion	high	high	high	low
Direct managerial control over work organization	considerable	considerable	low	high
Separation/segmentation between managers and workers	low	low	low	low
Employer commitment to core workforce	high; somewhat performance based	high; performance based	high; performance based	high; performance based
Basis for reward allocation	job, skills, quality and collective performance	job, skills, quality and collective performance	short/long-term individual and collective performance and abilities	short/long-term individual and collective performance and abilities

Source: Author's analysis according to Whitley (1999).

All factories share a flat work organization with low separation between managers and workers. They also encourage training and declare commitment to a well-performing workforce based on workers' performance evaluations. Great attention is paid to developing worker competencies and identifying key functional areas and individual worker abilities. Managers maintain that direct interaction with workers is crucial for factory performance and productivity, and that factories can only compete through their people, not through their technology. Still, what matters here is not merely the idea of making factories profitable, but the means of achieving profitability. Evidence shows that profitability and thus rational economic behavior is mediated by particular local conditions, company values, and the values of individual managers. A particular managerial attitude is intrinsic in both formal and informal work practices (i.e. communication styles, motivation, and informal interaction at the shop floor). In line with company values, Electra's managers do not aim at straightforward domination and exploitation of the workforce, but at an alignment of workers' values with company values. This takes place via increasing the workers' beliefs that they are important for the firm.<sup>2</sup>

2 This managerial attitude applies to all kinds of production workers – whether permanent, temporary or hired through a temporary labor agency. Of course, long-term interaction between permanent workers and managers yields more personal knowledge and thus possibly a closer relationship; however, managers do not discriminate against temporary and agency workers in their interaction. In fringe benefits, some discrimination exists (as discussed below).

Daily interaction between managers and workers is an essential part of the strategy to build interactive work relations as the HRM officer from EBE documented:

The relation is formal and friendly. We are not friends; it is business. But it is not so that there is a strict hierarchy ... blue-collars can speak directly to [the managers]. We encourage open communication, but it is still business wise [i.e. businesslike, note by author] ... It is not the intention to have friends here, I think you should avoid that, because otherwise you cannot do proper [work].<sup>3</sup>

A deeper examination of factory operation through open interaction with workers reveals that company values are central for determining the way that Electra has chosen to achieve profits. A quote from EPL's manager illustrates this point:<sup>4</sup>

My HR manager ... said, "Nobody works for Electra; you only work for your boss." That's true. If you look up to your boss and you have a lot of respect for him, he has been very good to you and you have been very good to him and the communication works there, if he comes to you and says "I would like you to work an extra hour today," you would be much happier to do it than if you have a very bad relationship and you have some kind of dictator walking along the production line.

The observed low separation between workers and managers has not been imposed by Electra's corporate headquarters, but has emerged as a consequence of Electra's values responding to local cultures and perception of hierarchies. In EFR the hierarchy between the worker and his/her boss common to French work systems is maintained and communication is more formal, whereas in EBE the workers call their managers by their first name. A similar situation exists in EHU, in line with common practice in Hungary, of calling each other by their first name and maintaining informal relationships despite existing hierarchies. In line with general Polish work practices, the hierarchy in EPL is maintained, but people generally agree right away to call each other by their first name and communicate informally. This applies especially to managers and workers in daily contact.

Aside from the similarities outlined, the factories diverge in several aspects of work system. Although several practices are of corporate origin, their implementation differs greatly in response to local conditions and worker mentalities. The most important differences apply to financial employee motivation. Allocation of rewards is linked to performance differently in each factory,<sup>5</sup> and competition between workers is fostered

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3 Interview date 2004/10/13.

4 Interview date 2004/04/21.

5 Financial motivation is extensively used in CEE, but not in Western factories. In the West, soft motivating factors, i.e. delegated responsibility, open communication, attracting workers to company developments, or the possibility of reverse appraisals (workers' feedback to immediate supervisors) tend to be more successful. The influence of trade unions also constrains the use of performance pay in Western Europe. In CEE, soft motivating factors are also used but are effectively combined with financial motivation.

in the CEE sites but not in Western sites. In this respect, a clear East-West division in Electra's behavior is observed.

The findings also document differences that do not relate to an East-West pattern but, instead, to individual factory differences: for instance, between the Hungarian factory and the other plants in relation to task fragmentation, and between the Polish factory and others in terms of managerial control over work organization and trade union involvement in communication between the employer and workers. First, the reason for workers' extensive freedom over their tasks in EPL is that managers perceive the workforce to be highly educated and skilled and thus able to shoulder individual responsibility. A larger workforce in EHU, compared to other factories, complicates extensive delegated responsibility on a scale similar to EPL. Second, managerial control over work organization tends to be lower in business systems with strong trade unions, as in Belgium and France. However, in the case of Electra the unions have not been strong enough to decrease managerial control, which has led to the condition that Electra's work systems in Western subsidiaries differ from the HR practices and work systems generally found in these countries. The only factory where managerial control over work tasks is low is EPL. External societal and trade union influences do not account for this fact, because in EPL, and in Poland in general, unions are structurally the weakest of all the cases studied (Kahancová/Meer 2006).

What do the above findings suggest about overall work system patterns in the factories investigated? Although none can be directly associated with Taylorism, delegated responsibility, or flexible specialization, all Electra factories more or less fit a delegated responsibility work system with elements of paternalism. This confirms earlier evidence that paternalism towards workers has been an inherent feature of Electra's corporate values over decades (Meer 2000; Stoop 1992). In line with paternalist values, Electra emphasizes the importance of worker satisfaction and social welfare. In its home country (the Netherlands), Electra has long been perceived as a social employer offering well-paid jobs, employment security, housing, health care, education and socio-cultural services for employees (Stoop 1992; Meer 2000).<sup>6</sup> In line with earlier findings, my evidence on fringe benefits (see Table 3) confirms that paternalist values are more than a formal part of the company's public relations and corporate social responsibility; and the company implements the declared purposes.

Workers' benefits can be divided in two categories: practices aiming at increasing material wellbeing, and practices to foster recognition of personal qualities and to demonstrate Electra's interest in workers' fair treatment in work-related matters and personal and social interests. Electra's fringe benefits are not coordinated across the factories studied or in conjunction with corporate headquarters, but are exclusively local, in some

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6 In 2003 Electra was ranked the number-one sustainable company in the Dow Jones Sustainability Index in its sector (Electra 2004).

cases developed or negotiated with local unions and factory works councils.<sup>7</sup> Temporary workers hired through an agency are somewhat discriminated against where the provision of the listed benefits is concerned.<sup>8</sup>

Table 3 Fringe benefits in Electra factories

Benefit	EBE	EFR	EPL	EHU
New Year's day breakfast, lunch or drink	x	x		
Recognition of workers' personal achievements (i.e. additional diploma or certificate in areas of personal interest)		x		
Santa Claus event (and gifts for workers and/or for their children)	x		x	x
Women's day event (flowers for female workers)			x	
Christmas presents, also for temporary workers	x		x	x
Integration and team-building parties, sponsored team trips			x	x
Discovery day – open day for visitors (workers' families, potential recruits)	x		x	
Long-service recognition, i.e. upon retirement (EBE: TV sets <sup>a</sup> , EFR: work medal, EHU: thank-you note, refreshments)	x	x		x
Volunteer firemen recognition day		x		
Medical care services (EHU), extra-legal medical insurance (EFR)		x		x
Sickness supplement, income supplement in the event of death	x			x
Electra-sponsored insurance for non-work-related accidents	x			
Psychologist (2 days/week)		x		
Loans with 0% interest (EFR), housing loans (EHU)		x		x
Personnel shop or discount vouchers for Electra products	x	x	x	x
Soccer and cinema tickets (EBE), holiday checks (EHU)	x			x
Frequent competitions and drawings to win Electra products				x
Electra-sponsored summer outdoor social and cultural events for workers and their families			x	x
Free parking for workers (in EBE, a union-stipulated walking bonus for parking in distant parking places)	x	x		
Contracted bus service for workers (EHU), agreement with public transport authority to adjust bus schedules to Electra's shifts (EPL)			x	x

a Rewarding retired workers with a TV set has been a tradition in EBE for many years. Given the growing costs of production of flat-screen TV sets and following an agreement with trade unions, this practice no longer exists.

Most of the documented fringe benefits do not directly relate to workers' performance on the job and thus to factory performance. Instead, building on company paternalism, they primarily aim at improving workers' social welfare, which may vary in different

<sup>7</sup> Such as the 2004 Open Day in EBE and the annual summer outdoor events in EPL.

<sup>8</sup> In EBE and EFR, agency workers are, legally, not Electra employees and therefore do not receive benefits that Electra provides to its regular employees. In EHU, temporary workers and agency workers are discriminated against in terms of receiving holiday vouchers or any long-service recognition, while the company's meal voucher contribution is reduced. Discrimination is least extensive in EPL; this factory does not hire agency workers and thus all workers are Electra employees with full rights to fringe benefits.

countries. They involve costs for the company, but their effect on profits and organizational performance is unknown in advance. For this reason, I maintain that the benefits provided have a broader aim than facilitating company profits and universal rationality in company behavior. Of course, Electra's fundamental goal is to maximize profits, but the means of achieving profits are endogenous and influenced by company values and responsiveness to different workers' interests in different countries.

In sum, evidence shows that Electra has opted for an open relationship towards its workers and for rather generous fringe benefits regardless of factory location. Apart from this broadly understood similarity, several differences apply to the work systems and fringe benefits studied. An evaluation of this evidence – based on a comparison across the four factories, and between the factories and their respective local conditions – follows next.

### **How different are Electra's factories from each other and from local standards in work practices?**

In the past twenty years of corporate development, which have included severe reorganizations and job losses, Electra has continued to maintain its paternalistic administrative heritage as long as this does not clash with corporate economic interests, thus balancing the need for profits and efficiency with company values. In this respect, my findings confirm the company's attempt to diffuse several work system attributes as best practices that assure workers' compliance with company values across different countries. These include the willingness to delegate authority, flat hierarchies, open communication, informal social relations between managers and workers, and attention to workers' social welfare. Nevertheless, Electra understands that successful practices in one case may not have the same effect on performance in other cases due to different institutional and cultural factors, which generates differences in work practices across the factories studied. Variation is found predominantly in reward allocation (collective in Western factories and individual in CEE factories), the types and extent of fringe benefits, and the use of financial motivation. Variation in these work system elements corroborates the view that paternalism in Electra is not directly diffused across organizational units and that direct involvement of corporate headquarters in factory work systems is limited.

An evaluation of these similarities and differences in work systems reveals that a diffusion of best practices is indeed taking place. The MNC has a central role in shaping local work practices via this diffusion process. At the same time, work systems differ from each other in a variety of aspects, in which they are responsive to and embedded in local conditions. The local responsiveness is an inherent feature of Electra's company values. Therefore, work systems in Electra's factories are best described as an outcome

of a hybridization process that draws on corporate goals and values, the utilization of differing local conditions, and the values of individual subsidiary managers (cf. Boyer et al. 1998; Meardi/Tóth 2006).

Hybridization in work systems is not mirrored in fringe benefits. A corporate design of benefits for production workers is not in place, and each factory's benefits are fully responsive to local standards. Interestingly, we cannot speak about Electra's *adaptation* to local work practices – especially in CEE, where Electra's benefits, and work practices in general, tend to exceed local standards. In terms of costs and managerial creativity, fringe benefits are relatively more extensive in CEE factories than in Western factories. This goes against expectations of profit-driven and exploitative behavior on the part of a MNC in low-wage countries and of market-driven conditions in CEE. There are several explanations for this situation. First, the maturity of Western factories, the stability of host-country institutions, labor market dynamics, and strong unions account for wage stability, predictable working conditions and, to a certain extent, job security. The effect of extensive fringe benefits on worker motivation is more limited than in CEE countries, which reduces the tendency to use such benefits. Second, Western Electra factories face higher labor costs and therefore increased budget constraints in organizing social events. Third, because fringe benefits are not corporately determined, their extent depends on the values and interests of local managements as well as on local conditions, including welfare states and trade union strength. The business success of the EBE factory is attributed to the strong task orientation of its general manager at the expense of a modest human orientation. In EPL and EHU, managers are more people-oriented than task-oriented, and their personal values are transposed to the extent and type of fringe benefits provided. Finally, working conditions in Eastern European factories are more demanding when compared to Western factories (i.e. longer working hours, a higher number of shifts, lower wages) and, in line with company values, Electra aims at compensating for tough working conditions with generous benefits.

When contrasting Electra's work practices with common patterns in each host country, similarities and differences are found yet again. Electra's work system in EBE diverges from other evidence on Belgian work practices (Hees 1995) through its high worker discretion, extensive communication and feedback, low separation between managers and workers, flat hierarchy, and lack of interference from headquarters in workplace organization. However, EBE fits the Belgian pattern in its considerable managerial control and the non-existence of financial involvement and performance-related pay.

In contrast to common French practices, EFR is far from a Taylorist work system, with strict workplace hierarchies and formal relations (Maurice/Sorge/Warner 1981: 84; Brunstein 1995). According to French Electra managers, EFR has better internal relations than locally comparable companies, where employees report considerable pressure and relations are problematic partly because of authoritarian management styles. Electra is close to general French practices in fostering teamwork, training, and modest competition via performance-related benefits. Evidence on fringe benefits from EFR



does not confirm Brunstein's findings that MNC behavior in France lacks social sensitivity towards workers and only aims at achieving profit at any costs (Brunstein 1995).

EPL shows a more positive picture of HRM in Poland than that documented by studies of Polish practices (Sagie/Koslowsky 2000; Kohl/Platzer 2004). The personal values of Electra's managers lead to extensive fringe benefits, teambuilding beyond the workplace via social events, and relatively good working conditions despite tough working time and job insecurity. This enhances Electra's reputation as an attractive place to work, and deepens the gap between Electra's and other local companies' work systems and fringe benefits.

Work system characteristics of Electra's Hungarian factory suggest a local influence on high managerial control and less mobility between positions, but this is related to the large size of the workforce. Electra differs from Hungarian standards in its relatively generous benefits, its practices of employee participation, and its institutionalization of performance evaluations (Whitley et al. 1997). According to my respondents, workers appreciate Electra's performance pay, fringe benefits, communication and informal interaction with managers irrespective of the local labor market situation.<sup>9</sup>

In sum, findings on work systems and fringe benefits in four Electra factories suggest neither a full-fledged corporate diffusion of best practices with the purpose of efficiency and profit seeking, nor their extensive adaptation to local standards with the same purpose. Work practices are constructed both from best practices and locally unique practices and thus referred to as hybridization. Going beyond this conclusion, it is appealing to analyze what factors account for the observed patterns, and what implications can be generally drawn for firm behavior and commitment towards workers in differing institutional conditions. The next section offers such an analysis.

### **Accounting for observed patterns**

What accounts for observed work system characteristics and the generosity of fringe benefits? How does the influence of local conditions and of corporate paternalist values alter Electra's universal rational economic behavior (based on profit drive and international competitiveness and efficiency)? In explaining work practices across different countries and MNC factories, the existing literature has drawn mainly on the company's rational economic goals and the influence of local conditions. Apart from these two factors, I also study the influence of paternalist corporate values. I first investigate these explanatory factors one by one.

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9 Being located in a tight labor market, EHU has to fight harder for skilled workers than EPL.



A rational economic perspective on Electra's behavior towards workers suggests that the firm would invest in building commitment to workers and offering generous benefits only if this led to increased profits (Sagie/Koslowsky 2000; Deery/Iverson 2005). Evidence in this paper does not directly support this claim, but suggests looking closer at the means of achieving rational behavior. Profit-related measures in employment conditions include extensive employment flexibility in Electra's subsidiaries. These measures are central for optimizing employment, production and market demands, but at the same time they bring increased costs for the MNC in terms of managing the flexibility itself. And, even more importantly, by following exclusively a profit goal in a short-term perspective, Electra would not be motivated to offset flexibility with generous benefits, reward workers for personal achievements, and emphasize informal social interaction at the shop floor. Obviously, the purpose of these practices is to raise a motivated and committed workforce, but when Electra's decision to foster such practices has been taken, their future effects on profits have not been known to management. Neither does the company conduct studies and carry out benchmarking against competitors on whether such behavior actually improves profitability.<sup>10</sup> Therefore, I argue that profit and efficiency drives alone are not a sufficient explanatory factor of the work practices described.

This argument does not render profit and efficiency considerations unimportant in MNC behavior and commitment to workers' welfare. In the past thirty years, Electra underwent several major reorganizations in response to increased global competition mainly from Asian producers. These restructurings brought a reconsideration of Electra's assets and core competencies, and greater transparency in the organization's functioning, but they also had severe consequences for employment. The number of jobs for production workers considerably decreased, especially in Western Europe. In some cases, temporary or agency workers replaced permanent workers. Thus, in issues of strategic importance, efficiency and profit *are* the firm's priority. But as long as the broader framework of rational behavior induced by sharp international competition allows it, Electra will attempt to achieve its business goals in a socially responsible way, i.e. by treating the workers currently employed in the factories in a humane way and offering them generous benefits. Electra believes that it is this kind of HRM that constitutes the best means to achieve profitability. This holds despite the fact that blue-collar workers are not strategically important (anymore) and the company's core competencies are shifting from production to research and development.

Beyond the firm's rational behavior, what other factors explain the observed work practices? Do external conditions and actors create pressures on MNCs to comply with existing institutionalized practices or to increase the firm's societal legitimacy (Hiss 2006)? The impact of local societal and institutional factors on Electra's subsidiaries is extensive not only because they exert constraints on firm behavior (Streeck 1997), but also

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10 Source: internal documents and discussion with Electra headquarters HRM manager, 2006/09/28.

because they create institutional spaces and opportunities in which the MNC embeds itself in order to find the optimal way of functioning in diverse conditions (Sellier 2000; Maurice/Sorge 2000). Electra recognizes the impact of host-country conditions, both national and local, and reflects them in a decentralized HRM strategy. Already in the early 1970s, the company was well known for its responsiveness to differing local conditions:

In our experience, national management initiative is the best way of ensuring the flexibility and adaptability necessary in widely varying circumstances. This particularly holds true for personnel and industrial relations policies, which have to follow national legislation ... and to fit into the national labor market situation and industrial relations structure and climate as well as take into account national characteristics and preferences. (Dronkers 1975: 166)

If societal and institutional effects do constrain Electra's behavior and lead to work practices that resemble those of other local companies, the findings would indicate extensive similarities between the factories studied and the general HRM practices in the host countries. However, as shown above, such a wide-ranging adaptation of Electra's behavior to local practices has not been documented. Especially the findings in CEE factories are puzzling, because Electra's way of treating workers and the generosity of fringe benefits exceed local standards. The quality of working conditions in CEE, and collective labor representation to induce such a quality, differ greatly from Western Europe. Due to economic hardship and the uncertainty of employment, workers value their jobs and fulfill almost any management requests. A strong institutional framework, i.e. the legal stipulations and a system of collective bargaining to facilitate workers' welfare, is absent (Mailand/Due 2004; Avdagic 2005; Meardi 2006). Therefore, Electra is not under host-country institutional pressures to offer generous benefits and above-average working conditions. Societal pressures, i.e. benchmarking work practices against other locally established firms, and local fashions in management practices (Abrahamson 1996; Pfeffer 2006) that would force Electra to adapt to local standards, are not extensive either. The local environment is relatively conducive to the exploitative treatment of workers by MNCs. Had Electra been pushed to adapt to local practices because of external influences (legislation, trade unions, market pressures, and common work practices in locally established firms), flat hierarchies and attention to worker welfare would have been less evident than documented. Regardless of these conditions, Electra maintained its Western European commitment to offer better work practices than other local employers and even some MNCs.<sup>11</sup> Therefore, neither Electra's rational profit strategy nor external pressures on company behavior originating in host-country societies alone account for the observed patterns of work practices in the factories studied.

A full understanding of Electra's behavior necessitates the inclusion of the third explanatory factor – company values. In Electra, paternalist values have continuously shaped company actions in the transnational and local contexts since the company's

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<sup>11</sup> Source: interviews with representatives of local governments and labor market authorities in Poland and Hungary (2004–2005); local newspaper clippings.

establishment in the late nineteenth century and its gradual expansion abroad in the early twentieth century. The values relate to a common understanding within the MNC about how certain processes are best dealt with, and at what level of the organization (Bartlett/Ghoshal 2002). Electra's paternalism is based on two central factors: the charismatic leadership of the early company leaders, and local religious and power struggles during Electra's initial years in the Dutch countryside (Stoop 1992). The combination of these factors has led to a personnel and social policy that is specific to the organization, and thus more than an outcome of home-country isomorphism (Ferner/Quintanilla 1998).

Paternalist values originated in the company's early attempt to pacify the organized labor movement in the Netherlands. Later these values were strengthened by Electra's leadership after exposure to the great economic depression in the 1930s, and by attempts to maintain the company's functioning and thus protect jobs during the Second World War. Drawing on such actions, a company-specific tight system of values was gradually strengthened and permeated managerial thinking from headquarters to foreign subsidiaries. The selection and training of managers is an important process in maintaining the continuity of this value system. Instead of imposing corporate values on local managers, the company recruits managers whose individual values match the company's values. These managers are then granted large autonomy from headquarters to pursue their local actions. In other words, the tightly coupled value system of Electra is balanced with a loose implementation system in differing local contexts. Thus, a combination of Electra's corporate paternalism and its responsiveness to local conditions, i.e. work habits, welfare provisions, and local employment standards, cannot be neglected in the explanation of work practices in diverse East-West settings.

The above analysis shows that values do interact with the company's profit endeavor and international competitiveness as well as with differing local conditions in which work practices are deployed. Values are simultaneously anchored in a particular organizational culture and particular local conditions. A combination of these gives concrete meanings to values and their relation to rational company behavior. I now discuss the interaction of economic goals, values, and local conditions.

Electra's economic behavior – the drive towards global efficiency and profit – has put company values under pressure. However, instead of evading earlier paternalism, Electra continuously seeks to balance its economic interest with its established values. Even if the company would attempt to disembed itself from its value system, this is not easy because the values are institutionalized and form a path-dependent administrative heritage of a firm (Bartlett/Ghoshal 2002). Instead of trade-offs between business interests and values, Electra attempts to balance these and avoid potential clashes. Values shape the company's perception of what is rational and how to achieve economic rationality in differing conditions. As a result, Electra's reorganizations have brought an improvement in profits and competitiveness and at the same time signaled a continuity of company values. Of course, ultimately any company action is profit-driven, but in decisions

whether or not to achieve profits by including workers' interests, Electra has opted to do so. Regardless of concrete expectations of higher profits, managers have maintained their concern about workers' welfare and the belief that people value good working relations and are more willing to expend extra effort when they are psychologically connected to their company (Pfeffer 2005: 6). In other words, company values became the means of achieving profit, and at the same time they account for positive externalities of the company's rational behavior to the benefit of workers.

Aside from balancing economic behavior with paternalist values towards workers, the company attempts to balance its profit goals with responsiveness to different social and institutional conditions in the host countries. Electra headquarters in host countries have always enjoyed great decision-making powers. Corporate reorganizations aimed at improving economic performance have not led to a centralization of such powers at corporate headquarters, but have facilitated further decentralization and site autonomy. This is not the result of Electra's inability to centralize decisions, but the company's belief that the factory is the optimal organizational level for managing local resources, in particular work issues in different countries. A decentralized HRM aims to better reflect the needs of each factory and its workforce and to decide the factories' strategic role within the corporate structure (cf. Kristensen/Zeitlin 2005). In other words, Electra has combined the search for best economic performance with attention to host-country diversity. The fact that the company itself is willing to develop different work practices in different countries eliminates the tension between a universal rational strategy and the constraints of differing local institutions.

Finally, an interactive relationship exists between company values and local conditions. A tight value system in an MNC can create tensions in the implementation of these values, especially if they are not consistent with values, work attitudes and standards prevalent in particular local conditions. To avoid such tension, Electra's responsiveness to diverse conditions encompasses a loose and decentralized system of transposing company values to actual work practices in the factories. Selection of managers who run the factories' work affairs autonomously but in line with corporate values is the most obvious evidence of how Electra combines corporate paternalism with local responsiveness in its foreign subsidiaries. Consequently, corporate paternalism is maintained but acquires different meanings across different socio-economic contexts, and leads to different work practices and fringe benefits in different countries and local conditions.

In sum, an explanation of work systems and fringe benefits in Electra's factories needs to account for the interplay of all three explanatory factors discussed, even though the existing literature has treated them separately. I have shown how corporately determined paternalist values interact with the MNC's rational economic behavior as well as host-country institutional and societal diversities in Western and Eastern Europe. An outcome of this interactive process is work practices that are neither diffused from headquarters nor adapted to local standards, but are still embedded in particular local conditions. Diverse local conditions are used as a resource for achieving international

economic competitiveness, and for developing concrete meanings of the paternalist values of the MNC. Although work practices differ in several aspects, generous benefits and an open management-workforce interaction exist regardless of local standards in Western European and CEE conditions.

## Conclusions

This paper discusses work systems and fringe benefits in a Dutch MNC and its subsidiaries in Western and Eastern Europe, and provides an analysis of observed findings and company behavior in relation to this. All subsidiaries, despite being located in different countries, roughly fit a paternalist work system. However, the implementation of paternalist work practices is not coordinated in the MNC but responsive to local diversities. In those aspects of work practices where MNC goals are independent from local conditions or local conditions are similar and therefore facilitate similar practices, the company has opted for diffusion of best practices. In aspects where the firm perceives local conditions to play an important role for its rational economic behavior, the MNC has utilized local differences to develop subsidiary-specific aspects of work systems and fringe benefits. Thus, the work practices documented are an outcome of hybridization between corporate best practices and MNC responsiveness (not necessarily adaptation) to local labor markets and work habits across European countries (Meardi/Tóth 2006; Boyer et al. 1998).

An explanation of company behavior in relation to studied work practices interlinks three factors: the MNC's rational economic interest, company values, and local conditions. The mutual influence of these factors yields work practices that are embedded in, but not adapted to, local standards in Western and Eastern Europe. A paternalist value system of the MNC studied accounts for an open relationship towards workers and rather generous fringe benefits regardless of subsidiary location, and gives concrete meanings to the MNC's rational behavior to maximize profits. The paper argues that a system of company values modifies company behavior in such a way that it does not comply with a universal rational expectation, nor with adaptation to local diversities due to institutional pressures. Thus, rationality is endogenous to values and differing local conditions.

Returning to the concern raised in the introduction, the main motivation to study company behavior vis-à-vis workers in coordinated and liberal market conditions was to discover whether companies hold to their commitments even when moving from coordinated to liberal conditions, and what their actions mean for workers' welfare. The implication of my argument is as follows. Critical of an economic logic, companies do not automatically disembed themselves from their commitments to workers' welfare in order to save costs and pursue universal profit-driven behavior. Rational behavior is

endogenous and thus can involve voluntary commitment to providing worker welfare and favorable working conditions. For this reason, a strong institutional framework is not necessary to maintain companies' commitment to workers' welfare. The paper has shown that these implications hold only if the company's internal value system is firmly established and facilitates voluntary self-constraint regarding universal rational action on the part of the company. Alternatively, if company values facilitate arm's-length relations to workers, interest in their exploitation, and short-term profit maximization, the external institutional framework can inhibit this kind of company behavior, but not eliminate it. All in all, attention has to be paid to company values and the influence of institutions that mediate rational company behavior towards workers.



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