

**THE INTERNATIONAL TRANSFER
OF PRODUCTION MODELS
SOME LESSONS FROM GERMAN FDI IN HUNGARY**

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1. INTRODUCTION¹

With the fall of the Berlin wall the notion of different national business systems or, to put it in another term, the variety of capitalism, gained much attention in the field of political economy. Although discussions about different capitalist models, such as the "Model Deutschland"-discussion were well under way in the beginning of the 80s, the vanishing of the communist system as an alternative seems to have spurred the discussion tremendously. Up to now the core topic of this debate is the question whether the different national systems are converging into a single model (no matter whether this model already exists or is still emerging as a kind of "third" model) or whether the models more or less stay as diverse as they are (or even get more diverse).

One point frequently mentioned to prove either convergence or divergence of national business systems is the role played by multinational corporations (MNCs), i.e. companies that are by definition located in more than just one national business system. Two main issues are discussed here: first what is the impact of cross-border transfer of production models on the business systems of host countries and second what impact does the specific bargaining power of potentially mobile MNCs has on the development of the business system of the home country.

Looking at the transfer of production models by German MNCs to Hungary via foreign direct investment (FDI), this paper is more strongly related to the first issue. Following some introductory remarks on different theoretical approaches to corporate internationalisation, the paper first tries to develop an appropriate theoretical framework to deal with the international transfer of production models inside MNCs. The next section will then raise the question, whether there is a unified and stable German Model to be transferred. Finally, the paper takes a first (preliminary) empirical look at what German investors transfer when going to Hungary, how these transfer processes occur and what strategic role the Hungarian subsidiaries play.

2. TOWARDS A THEORETICAL FRAMEWORK ON THE INTERNATIONAL TRANSFER OF PRODUCTION MODELS

Over the last five decades a growing awareness of MNCs as important economic actors has resulted in an increased scientific interest in MNCs. One topic that was and still is in the focus of many researchers from different disciplines is the question of what shapes the strategy and behaviour of MNCs. Given the different scientific backgrounds, the answers are rather diverse not only with respect to the variables used but also with regard to their unit of analysis. Approaches that stress strategic intentions of the management (sometimes enlarged by a look at the diverse micro-political processes inside MNCs) are juxtaposed to explanations that emphasise either market constraints or cultural and institutional legacies. Some studies concentrate on different functional or geographical units inside the MNC, others look at the MNC as a whole, while yet others deal with different national and/or sectoral groups of MNCs.

¹ This paper presents some results from an ongoing empirical research project on "Exogenous Influences in path dependent transformation processes: The effects of German FDI on work organisation and labour relations in Hungary". The project is funded by the Volkswagen Foundation and hosted by the Free University, Berlin. For a description of the wider aims of this project, that the author is conducting together with M. Fichter (Free University, Berlin), L. Neumann, (National Labour Centre, Budapest) A. Tóth (Hungarian Academy of Sciences, Budapest) and M. Wortmann (WZB and FAST, Berlin) cf. Dörrenbächer et al. (2000a). For stimulating discussions and many useful hints the author is especially grateful to M. Wortmann. I also thank J. Gammelgaard (Copenhagen Business School) who provided a wealth of very useful comments, with many of them to be implemented in a later version of this paper. For a very helpful discussion about the change of German Model, I thank T. Schulten (WSI).

Looking for a theoretical framework to deal with the cross-border transfer of production models does not allow to rely on a single approach, since the question itself touches at least upon the following levels of analysis:

1. the contextual and organisational reality of the model sending unit (that is in many but not in all cases the headquarter of an MNC)
2. the contextual and organisational reality of the model receiving unit (usually a subsidiary)
3. the strategic intent of what is transferred in terms of technology, work organisation, human resource management (HRM) and industrial relations (IR) practices
4. the absorptive capacity of the receiving unit (or environment), defined by Minbaeva (2001: 28) as the ability and the motivation to integrate a transferred model, (or the search capacity expressed as the motivation and ability to actively look for transfers, respectively)
5. the transfer process

To learn more about contextual influences on the transfer of production models the following paragraphs of this section will first draw on the emerging institutionalist literature on MNCs. We will then turn to a more actor-centred view by looking at intra-organisational influences, dealing among other things with the literature on strategic intent, micro-politics and the "new" role of subsidiaries in MNCs. Finally we will look at the theoretical results produced so far on transfer issues mainly concentrating on the Japanisation debate and some more recent studies on the transfer of HRM/IR practices in MNCs.

2.1 CONTEXTUAL ISSUES

Looking at MNCs from an institutionalist point of view is a rather new phenomenon. It was not until the beginning of the 1990s that institutionalist thinking, developed in the 70s and 80s was applied to MNCs (Westney 1993) and its advent can be seen as a step against the strong dominance of best practice approaches at that time. Best practice approaches, popularised by management consultancies and some parts of business academia derive a single best practice for the internationalisation of companies from their understanding of relevant market forces such as transnational product harmonisation, the growing importance of fixed costs and the fact that major innovations occur in all regions of the Triad. Following this approach more or less all MNCs have to apply a value-based management style and to go for global presence while integrating economies of scale and national responsiveness (Bartlett/Goshal 1989, Ohmae 1990). The institutionalist view strongly opposes the idea that market constraints impose a specific best practice to the international co-ordination and configuration of an MNC and instead stresses that the specific social and institutional environment of an MNC is the dominant (or sole) source of normative pressure that shapes the behaviour of an MNC. According to this view MNC are by no means free to choose a single best practice solution, but their internationalisation is shaped by the specific economic, political and institutional home environment of the MNC (e.g. Ruigrok/van Tulder 1995). Frequently used indicators to describe such an environment are: the financial system (or governance system), the innovation system (including the question of the technological level of production), the industrial relations system (including labour markets) as well as the local/national demand conditions (e.g. Porter 1990, Albert 1993, Lane 1999, Quack/Morgan 2000). Both, best practice as well as institutionalist approaches have been criticised for not being complex enough. E.g. Mueller (1994) stressed that in general corporate behaviour of MNCs reflects both global best practices and societal embeddedness. Beyond that, Dörrenbächer (2000a) showed that not only best practice requirements *and* structural dependencies have to be taken into consideration to explain the internationalisation of MNCs but also corporate idiosyncrasies (or "firm trajectories" in the words of Boyer/Freyssenet 1995).

With respect to the topic of this paper, a second point has to be emphasised: Most institutionalist approaches to MNCs (e.g. Hu 1992, Mueller 1993, Sally 1994, Ruigrok/van Tulder 1995, Pauly/Reich 1997, Whitley 1999, Dörrenbächer 2000a, Morgan et al. 2000) only look at the impact of the country of origin of the MNC, somewhat ignoring the fact the multinational corporations are *sui generis* located in more than one national business system. While Morgan et al. (2000) explain this limitation by pragmatic reasons, Whitley (1999) considers host country influences as rather uninteresting since, according to his opinion, host country influences are in most cases not very likely to provoke a fundamental organisational change throughout the whole MNC. Whether this general statement holds true seems to be debatable, taking into consideration external growth by (often rather large) M&As as the dominant way to internationalise (Wortmann 2000) combined with the strong strategic desire of the top management of many MNCs to flee certain aspects of their country of origin business system and to learn from or to experiment with aspects of other business systems. Not to forget the fact that the national business systems themselves are moving targets, too (cf. below). In any case, however, such a “result oriented” approach, as maintained by Whitley (1999), is (by nature) only giving a single picture, hiding both the many different (strategic) perspectives alive inside an MNC as well as interesting micro-political processes emanating from multiple structural dependencies or, to put it in other words: from conflicting isomorphic pulls (Westney 1993).

2.2 INTRA-ORGANISATIONAL ISSUES

These latter aspects are better captured by the literature on the organisation and management of MNCs, that mainly deals with organisational structures, management instruments and co-ordination styles in MNCs (cf. Dunning 1993 or Hedlund 1996). One basic finding with regard to the questions just raised is that (especially larger) MNCs might not have only one centre (the headquarters) but many centres, with different tasks, responsibilities (Hedlund 1986) and different geographic locations (Forsgren et al. 1995). Next to the headquarter, there might be global co-ordination centres for certain products comprising all functions (global product divisions), global functional centres such as central R&D facilities, as well as different kinds of regional or national centres. Taken as a whole there is a clear historical trend to global integration (by global product divisions or global functional centres) at the expense of country or regional specific co-ordination (cf. Fouraker/Stopford 1968, Stopford/Wells 1972, Humes 1993, Wortmann 2000).

Global integration adds to the complexity of managing an MNC, that is already high due to the fact that the different units of an MNC might work in environments of varying degrees of complexity, heterogeneity, stability and hostility (Fayerweather 1978): The management of integration must comply both with the overall strategy of the MNC and the specific local requirements of the subsidiaries affected. This touches upon questions of delegation and control. In accordance with many others Baliga/Jaeger (1984) distinguish between bureaucratic and cultural control. Bureaucratic control is based on a formalized planning and steering process. This process, that usually has explicit rules, can imply different levels of central control (or decentral autonomy) depending on (1) the scope of planning (aims, measures, resources) and (2) on the frequency and differentiation of the reporting process. Managers involved in this process only need to accept the codified rules of bureaucratic control. On the contrary, cultural control requires that managers, both in the central and in the decentral units of an MNC share a common set of norms and values, usually referred to as the corporate culture. Compared to bureaucratic control, training and socialisation are much more important here. Just like bureaucratic control, cultural control can also imply very different levels of central control (or decentral autonomy), depending on who determines or mainly influences corporate values. Beyond this dichotomy, the last 10 to 20 years have seen the rise of control strategies that rely on the creation of profit centres or the

fostering of competition between different units inside an MNCs by coercive comparisons, benchmarking efforts or corporate internal rankings (Edwards et al. 2000). In practice most MNC use a mix of the three control strategies just described (Ferner 2000).

The level of subsidiary autonomy depends among other things on the basic style of international management as imposed or conceded by the headquarter.² Other factors might be the market orientation of the subsidiary, the size of the subsidiary, the size of the MNC as a whole, the way the subsidiary became part of the MNC (greenfield investment or M&A), the ownership structure of the subsidiary (fully or partly owned subsidiary) or the growth strategy of the MNC.³ A rather influential factor seems to be the specific function of the subsidiary. Following a typology by White/Poynter (1984: 59-61), three out of a total of five types of subsidiaries have no or a very low autonomy. These are: (1) "Marketing satellites", that are simple importing companies with some local value added, (2) "Miniatur replicas", that are producing and marketing some of the parents product lines in a foreign country⁴ and (3) "rationalized manufacturers", that are producing a designated set of component parts or products for the local, regional or even a global market. Two types of subsidiaries, however, exhibit a much stronger autonomy: (1) "Product specialists" are developing, producing and marketing a limited product line for global markets. Autonomy within this product scope is rather high. (2) "Strategic independent subsidiaries" have the freedom and the resources to develop lines of business for local, regional or global markets. They have far reaching access to resources and the freedom to pursue new business opportunities. Here subsidiary autonomy is highest.

While much of the older literature on headquarter subsidiary relationship is explicitly or implicitly inspired by a headquarter perspective, more recent times - probably starting with Hedlund's heterarcical MNCs, that as a key idea include " ...that subsidiary managers are also given a strategic role, not only for their own company but for the MNC as a whole" (Hedlund 1986: 220) - have seen an increasing amount of research that stresses the importance of subsidiaries in MNCs (e.g. Goshal/Nohria 1989, Gupta/Govindarajan 1994, Birkinshaw et al. 1998, Kristensen/Zeitlin 1999, Gammelgaard 2000). Foreign subsidiaries are no longer seen as "merely distant tools of corporate management, reacting as ganglia to impulses sent downward through the bureaucratic nervous system" (Taggart 1998) but as important strategic parts of MNCs, that systematically contribute to the firm specific advantages of MNCs. According to Birkinshaw et al. (1998) there are three important factors influencing the ability of a subsidiary to make a specific contribution to the firm specific advantages of an MNC. These are: the specific local environment of the subsidiary, that allows for more or less innovation, the head office assignment, that allows for more or less autonomy of the subsidiary and last but not least the strategic behaviour of the subsidiary management, that more or less succeeds in bringing to bear the specific achievements and potentials (and closely related to that the specific interests of the subsidiary) in the MNC context.

² Referring to Perlmutter's well known typology (Perlmutter 1969, Heenan/Perlmutter 1979) one can distinguish between an ethnocentric (all important decisions are taken in the headquarter and all norms and rules are unilaterally transferred from the headquarter to the affiliates), a polycentric (low international integration, high autonomy of affiliates) and a geocentric management style (high international integration, company wide application of the best solution irrespective of their origin in the MNC).

³ For instance an empirical study by Welge (1987) proved that the autonomy of a subsidiary is rather high, when (1) the subsidiary serves the local market, (2) when the subsidiary belongs to a smaller sized MNC (3) when a larger share of the capital of the subsidiary is in the hand of local partners and (4) when the MNC as a whole is following an expansion strategy. On the contrary subsidiary autonomy is rather low, when (1) the subsidiary belongs to a large MNC, (2) produces standardized products, (3) serves a larger market than the regional one, (4) is strongly integrated into a global strategy and (5) is at least majority owned by the MNC.

⁴ Depending on the product and market modifications necessary, miniatur replicas might be adopters, adapters or innovators of related products that better fit local demands.

Especially the last point mentioned opens the perspective to the level of micropolitical conflicts inside MNCs. Based on the concept of bounded rationality (Cyert/March 1963, Maslow 1970), that refuses to see corporate strategy as nothing but a logic results of rational choices and drawing on the more general work on power in organisations (Etzioni 1961, Pfeffer 1981, Naschold 1983) especially Scandinavian authors have developed the idea that power struggles play an important role in headquarter-subsiary relationships. According to Sölvell/Zander (1998) headquarter ambitions to control foreign operations and subsidiary efforts to gain independence and take advantage of local business opportunities (usually not very well conceived and understood by the headquarters) are a constant source for conflict. Next to that there are two other basic lines of headquarter-subsiary conflicts: One on the distribution of the surplus and a second on the influence of the future development of the MNC as a whole or of the individual subsidiary (Forsgren/Johanson 1992). However, these basic conflicts occur in many different forms. There are iterated conflicts about investments, that have a high strategic importance either for the subsidiary or for both the subsidiary and the headquarter in case of a high interdependence. There are status conflicts between indigenous subsidiary managers, expatriates or third county managers and headquarter managers that are very much influenced by the psychic and cultural distance of the persons involved (Johanson/Vahlne 1977, Hofstede 1993). Finally, conflicts occur with respect to the attempts of subsidiaries to bring to bear their own achievements and potentials in the headquarter. Here research on organisational justice in MNCs, that is still in its infancy, has emphasised that the inclusion of subsidiaries in the process of strategy generation is of specific importance since it defines the level of procedural justice in an MNC, with procedural justice much more shaping the behaviour of a subsidiary (support/acceptance/resistance of a certain strategy) than mere “just” outcomes (Kim/Mauborgne 1993). However, such subsidiary–headquarter conflicts might also be the other way around, for instance when the headquarter management, trying to transfer organisational or technological knowledge, is confronted with the “not invented here” syndrome (Forsgren et al. 1995, Edwards et al. 2000). According to Forsgren et al. (1995) this is especially likely in cases where the foreign subsidiaries are rather large companies with strong technological and organisational capabilities. Based on a look at knowledge flows to and from subsidiaries, Gupta and Govindarajan (1991) develop a typology that indicates different structural positions of subsidiaries. They distinguish “global innovators” (low inflows - high outflows of knowledge) and integrated players (high inflows - high outflows of knowledge) from “local innovators” (low inflows – low outflows) and “implementers” (high inflows - low outflows of knowledge). Whether this translates into strong and weak bargaining positions as well as in a high or low conflict potential with regard to transfer issues, respectively, remains to be seen.

2.3 TRANSFER ISSUES

Ever since the first industrial revolution, the transfer either of single technologies or production models as a whole was of specific importance for the economic development of nations. Britain’s early start in the industrialisation around 1750 triggered a first intense phase of technology transfer to continental Europe, Scandinavia and the USA in the late 18th Century (O’Brien 1986, Bruland 1991). More than hundred years later, around the first World War, Fordism in the United States generated a new standard of productive efficiency transferred to Europe and (to a lesser extent) to Japan (Kipping/Bjarnar 1998, Zeitlin/Herrigel 2000), superseded in the 1970s by the “global Japanisation” (Elger/Smith 1994). The study of these great historic transfer cases reveals that there is both a multitude of (individual and collective) transfer agents as well as a great variety of transfer channels. Thus looking at the transfer in and by MNCs (as in this paper) is only a partial view, though not an unimportant one. With regard to the transfer of industrial models via MNCs at least the following three analytical levels seem to be relevant: content, results and processes.

2.3.1 CONTENT

Up until now the question on what is transferred by multinationals while investing abroad is mostly treated implicitly. One of the more explicit treatments of this question is done by Sölvell/Zander (1998) who distinguish between the transfer of physical, human and social capital, with the transfer of physical capital such as standard materials, components, products and machinery being the most mobile, human capital, embodied e.g. in the tacit knowledge of the workers, being less mobile and social capital, embedded e.g. in social relations in (local) business networks, being the least mobile. However, in real transfer processes, the transfer of one type of capital is usually strongly connected to the transfer of a second or even a third type of capital. A particularly strong connection seems to exist between the transfer of physical and human capital. There is strong evidence that even the transfer of the rather mobile machinery (or technology) is burdened with many problems (Gertler 1995). These problems arise from the fact that machinery (or technology) always consist of a kind of hardware (or software) and knowledge, with the knowledge in most cases being localised and tacit, taking the form of uncodified skills or capabilities (Bruland 1991). Going beyond the transfer of a single machine or technology and looking at the transfer of whole production models, similar, but much more complex problems arise. This is easily understandable looking at what is a production model. According to the definition underlying this paper a production model is encompassing the following items:

- Technology,
- Management skills,
- Machinery (and associates skills),
- Production organisation,
- Work organisation,
- Human resource management practices (HRM) and
- Industrial relations (IR) practices.

Thus, next to the transfer of physical hardware and the tacit knowledge associated to it, a specific production and work organisation linking the different production steps as well as more or less coherent HRM and IR policies are needed. Up to now only a few studies, such as the work of the Gerpisa Group on the transfer and hybridisation of production models in the automobile industry look at transfer issues in such a broad and interconnected way (Boyer/Freyssenet 2000, Boyer et al. 1998, Dörr/Kessel 1999). However, there is a wealth of literature that focuses on the transfer of HRM and IR practices (such as trade union recognition, collective pay bargaining, shopfloor employee representation, employee information, consultation and participation) throughout MNCs (for a recent overview cf. Tüselmann et al. 2000).

2.3.2 RESULTS

Almost all empirical studies that look at the cross-border transfer of production models come to the conclusion that a certain amount of change is always necessary to successfully run a production system developed in one business system abroad. However, this does not mean that a one-to-one transfer is excluded in reality, especially not with regard to the transfer of single technologies or single HRM aspects. Thus catching all levels of analysis, a typology that measures changes associated with cross-border transfer processes in our opinion has to comprise (1) one-to-one transfers, (2) simple adaptation, where only minor changes occur, (3) real hybridisation, where the transfer process result in something that strongly deviates both from what was intended to transfer and from corresponding indigenous solutions, and (4) the assertion of indigenous solutions. One area with very strong dissent on the level of change associated with cross-border transfers in MNCs is HRM and IR policies. Some authors stress that there is generally little transfer of HRM and IR policies since the host country influence in HRM/IR is

very strong, leading to the fact that local labour relations widely prevail (Rosenzweig/Nohira 1994, UNCTAD 1994). Others, however, see a clear trend towards the evolution of company-wide best practices in HRM/IR policies and they suggest that these best practices diffuse more or less unchanged throughout the whole or large parts of the MNC (Marginson/Sisson 1994, Marginson 2000, Edwards et al. 2000). For many authors, these company-wide best practices reflect the Anglo-Saxon model of labour relations, irrespective of the country of origin of the MNC in question (Ferner/Quintanilla 1998, Ferner/Varul 2000). Beyond these two basic positions, differences have been made with regard to firm and industry characteristics as well as with regard to specific HRM/IR aspects and different host countries.

- Edwards et al. (2000) for instance emphasise that the degree of the diffusion of HRM/IR policies across borders depends on firm specific aspects such as the degree of the production integration, the existence of an internal management structure and the mode of investment (greenfield investments or M&A). Bluhm (2001 forthcoming) adds the importance of the size and the previous internationalisation experience of the MNC by demonstrating that especially large German MNCs tend to export the German model of labour relations to Eastern Europe.
- Traxler (1996) stresses that there are clear industry specific differences (depending on the level of international competition) on how strong the MNC export their HMR/IR policy.
- Finally, Tüselmann et al. (2000) emphasise that the transfer differs according to the different HRM/IR aspects as well as according to different host countries, with the UK and Eastern Europe generating the highest interest of empirical researchers so far.

2.3.3 PROCESSES

Up until now a clear process focus is somewhat underrepresented in the literature on the transfer of production models. Next to the general literature on expatriates, there are only a few studies that have looked in greater detail at the quality and the sequencing of transfer processes, including the way or the process how local adaptations or even hybridisations occur. Interestingly, almost all of these studies concentrate on transfer processes undertaken by western MNCs to their subsidiaries in Eastern Europe. For instance Rudolph (2000), looking at transfer processes to Polish subsidiaries emanating from their western parent companies, stresses that transfer always involves stays abroad, either of the personnel from the model sending unit or from the model receiving unit. Moreover, she emphasises that personal relationships are a major vehicle in the transfer process, with the expatriate managers playing different roles such as “.... bicultural interpreter, national defender and advocate or frontline implementer of corporate strategy” (Paauwe/Dewe 1994:97). A detailed look into the quality of personal relationships during transfer processes is given by Kessel/Dörr (1998). One of the companies they looked at used a kind of a tandem-management with expatriates and local managers sharing for a certain time the both the job and the responsibility. These tandems were designed as instruments to effectively transfer knowledge from the expatriate to the local manager. However, it turned out, that these tandems became important micro-political arenas for the solution of conflicts on social, cultural as well as practical issues. This study also sheds light on the fact that transfer strategies might change dramatically over the time. Due to many conflicts in those management tandems, it was also detected that the original intention to more or less fully transfer the country of origin production model would go too far and negatively affect crucial questions of identity and status of the local personnel. This resulted in a significant rewriting of the transfer strategy, with the modernised subsidiary finally turning out as a real hybrid, which was not intended before, but turned out to be a successful solution.

After this overview on theoretical aspects, relevant for the study of the international transfer of production models, we now turn to our empirical case. We will first take a short look at the German Model, its main pillars and its inherent logic. Based on our assumption that the German Model was never as consistent as it is often presented, as well as on the thesis of an increasing heterogeneity of the German Model since the beginning of the 1990s (Flecker/Schulten 1999), we will now try to develop an approach that copes with this heterogeneity in the way that it specifies the different company specific interpretations of the German Model so far. Next to that and following a short overall look at German FDI in Hungary we will discuss (1) whether the transfer efforts undertaken by German MNCs remain within the scope of this heterogeneity, (2) how these transfer processes occur and (3) what strategic role the Hungarian subsidiaries play.

3. THE GERMAN MODEL AND ITS COMPANY-SPECIFIC INTERPRETATION

There is little disagreement on what the main pillars of the German Model are. According to a recent definition that draws on a wealth of former works (e.g. Katzenstein 1980, Markovitz 1982, Streeck 1995, just to mention a few), the German Model consists of the following main items (Flecker/Schulten 1999: 83, points are added):

- “social market economy (soziale Marktwirtschaft), that is, capitalism tamed by political macro-regulation and redistribution by the state;
- long term perspectives and a preference for productive investments on the part of the capital;
- highly organised industrial relations combining sectoral multi-employer bargaining and co-operative labour relations within the enterprise;
- a vocational training system that combines on-the-job-training with the education in vocational schools and
- diversified quality production based on highly skilled workforces“

Somewhat overlapping with these items the more recent discussion has emphasised the specific aspect of corporate governance (e.g. Albert 1993, Caspar/Vitols 1997, Lallement 2001). Here the German Model is usually associated with the following three items:

- the strong role of the banks in company financing leading to patient capital;
- the system of co-determination and;
- a style of management that is more driven by technological than by financial aims (Jürgens et al. 2000: 59).

According to many observers the interplay of these institutions and attitudes led to a considerable economic and social progress in post war Germany. Industrial conflict was widely pacified by the redistribution policy of the state (especially in funding adjustment measures) as well as by the specific construction of the labour relations and vocational training systems. Thus the German labour system keeps the typically severe conflicts about wages more or less out of the companies and at the same time allows works councils to exert some influence on the conditions of the use of labour (via a set of information, consultation and co-determination rights). Also the vocational training system which is partly financed by the state and which produces large numbers of skilled workers, reflects a compromise between capital and work since it creates both company specific skills (via the on the job training) as well as more general transferable skills (via the training in vocational schools). Another important effect inherent to the German model is its favouring of “high road” strategies. Next to the “patient capital”, it is mainly the fact that short term cutting of labour costs is both rather difficult and costly, that directs companies much more to strategies that aim at an increase of productivity and quality, than to strategies that aim at price competition.

On the shop floor, however, the general conditions of the German Model such as the availability of skilled labour, a strong institutional backing of high road strategies as well as rather pacified labour relations, did not in all cases lead to a production concept other than the Fordist one, which is characterised by centrally planned Taylorized work. On the contrary, following the literature review by Flecker/Schulten (1999: 86) as well as a review of some more recent studies, there has always been and today still is a strong polarisation between (1) certain industries such as the machine tool industry or the printing industry where new concepts of work with a higher autonomy of the workers and a high level of job sophistication exist and (2) other industries such as the automobile and the clothing industry where low skill, Taylorist-Fordist production organisation prevails, with the effect of a strong under-utilisation of the existing skill base (Pries et al. 1989 cited in Flecker/Schulten 1999, Kurz 1999, Springer 2000, Nordhause-Janz/Prekuhl 2000).

Enduring differences are also reported with regard to shop floor employee representation. Here especially small (fewer than 100 employees) and all larger firms differ a lot according to the existence or respectively the effectiveness of shop floor employee representation. There are both differences in the resources works councils can draw on (e.g. degree of the exemption from the work for works council members, availability of outside expertise, paid qualification), as well as differences in the level they are able and “allowed” to fulfil their tasks as assigned by law (Dorsch-Schweizer/Schulten 2001).⁵

An increase in the heterogeneisation of the German model as a whole occurred with the post-unification crisis in Germany and the flaring up of the discussion about the competitiveness of Germany as a production location from 1992/3 on. Next to the growing importance of the stock markets in company financing and a more commercial orientation of the management, the main driving force here is the increased decentralisation of collective bargaining (Flecker/Schulten 1999, Schroeder/Weinert 1999, Upchurch 2000). Decentralisation of collective bargaining mainly occurs through the introduction of a variety of opening clauses to sectoral collective agreements, allowing for company specific differentiation. While in the case of wage issues this development does not necessarily lead to a greater heterogeneisation between the companies,⁶ this is obviously the case with regard to working time issues (cutting, enlarging and flexibility of working time). All in all, a recent study undertaken by a German trade union related institute (WSI), comes to the conclusion that the flexibility inherent in this decentralisation has already resulted in strong differences in the working and wage conditions in the same industry (Bispinck 2001).

Taking together the enduring differences according to the type of production and the shop floor employee representation, as well as the more recent tendency towards a decentralisation of collective bargaining, there is a considerable scope of different company specific interpretations of the German Model (cf. figure 1).

⁵ Coping with these differences was one of the major aims of the spring 2001 reform of the „Betriebsverfassungsgesetz“.

⁶ This is due to the fact that it was quite usual in successful companies to pay more than the collective agreement proposes. In recent times however the negotiations on the company level are not about additional payments but about their freezing or reduction. Whether this leads to a greater amount of harmonisation is difficult to say, since there is also evidence that decentralised company level bargaining in troubled firms leads to regulations below the standards of sectoral collective agreements (cf. Bispinck 2001).

Figure 1: The scope of company specific interpretation of the German Model



As a result, looking at the transfer of the German Model means at least to take into consideration this scope of different interpretations of the model. For instance the lack of sectoral collective agreements, which seems to be typical (not only) for German subsidiaries in Hungary, does not necessarily mean that the German companies as a whole do not export their model. The situation is further complicated by the fact that, as Bluhm (2001) or Tüselmann (2000) point out, it is not in the hands of the companies to export all aspects of the German Model, since the model also draws on resources that are beyond the control of individual companies. One striking example is the export of the German vocational training system. While the company can decide whether to introduce the on-the-job part of the vocational training system in foreign subsidiaries, it has no final control whether the state in which it is investing maintains or is willing to build up a system of vocational schools. For those cases both, Bluhm (2001) as well as Tüselmann (2000) propose to look whether the basic idea (or philosophy) behind this specific aspect of the German Model, a functional equivalent, or at least attempts to create functional equivalents can be observed in a foreign subsidiary or a foreign environment.⁷

⁷ Most problematic with regard to the widespread idea of simply comparing German and foreign units of the same MNC, is the fact that such comparisons often lack comparable units. This is not so much a problem with the question of labour relations, where a general HRM/IR style can be grasped. However, this is especially a problem with regard to the type of production and production organisation. Here we find cases, where a certain type of technology and production organisation never existed in Germany, no longer exists in Germany (since the transfer is a complete relocation of a German plant abroad), or cases where, following the life cycle theory, the more outdated and more labour intensive technology (incl. its work organisation) is transferred to a foreign location. In the latter case, comparing the new with the old technology will very likely lead to big differences. However, these differences might say more about the general socio-economic differences between Germany and the foreign country in question, which are usually well known, than about transfer problems, we are interested in. As a result, comparing different cases, as intended in this paper, means to abandon the idea of a deep one-to-one comparison of different (German and Hungarian) units of an MNC (which might be feasible in some specific individual cases) in favour of a perspective, that looks at transfer intentions, transfer problems, and the results of transfer processes

4. GERMAN FDI IN HUNGARY: A MACRO-PERSPECTIVE

Before we take a look at these transfer issues with regard to technology, production organisation and HRM/IR practices, we will first give an overall picture of German investments in Hungary.

Following a strong increase in the decade before 1998, German FDI in Central and Eastern European (CEE) Countries has passed German FDI in the Southern European Periphery (cf. Table 1.). The most important CEE Country for German FDI is Hungary. According to the Deutsche Bundesbank (2000) employment in German owned subsidiaries in Hungary rose from 1.000 (1988) to 155.000 (1998), making Hungary the seventh most attractive host country for German investments.⁸

From the Hungarian point of view, Germany is the single largest investing country. Comparing the Bundesbank data and data recently given by the OECD (1999), about 25% of all Hungarian employees that are working in foreign owned firms are employed by German firms. According to the OECD, in 1997 a total of about 565.000 people worked in foreign owned firms in Hungary. According to the Deutsche Bundesbank, German firms in Hungary employed 133.000 people at that time.

Compared with the two other major CEE targets of German FDI (Poland and the Czech Republic), German FDI in Hungary is less concentrated on manufacturing (cf. Table 1). More than half of the German employment in Hungary is in services. This dominance is partly the result of one large shareholding, i.e. the Deutsche Telekom's stake in Matav, whose approx. 17.000 (1998) employees are running the Hungarian telephone system.⁹

Table 1: Employment at German subsidiaries in Central and Eastern European Countries (CEEC)

	1992	1994	1996	1998
Hungary				
<i>All subsidiaries</i>	45,000	56,000	114,000	155,000
<i>Manufacturing subs.</i>	26,000	35,100	50,200	73,300
Czech Republic				
<i>All subsidiaries</i>	33,000*	68,000	109,000	141,000
<i>Manufacturing subs.</i>	27,900*	51,400	81,800	104,100
Poland				
<i>All subsidiaries</i>	18,000	47,000	84,000	151,000
<i>Manufacturing subs.</i>	14,700	35,500	54,400	90,800
TOTAL CEE COUNTRIES				
<i>All subsidiaries</i>	119,000	232,000	411,000	591,000
<i>Manufacturing subs.</i>	79,500	165,100	270,200	381,400
SOUTHERN EUROPEAN PERIPHERY**				
<i>All subsidiaries</i>	217,000	212,000	223,600	251,500
<i>Manufacturing subs.</i>	176,100	163,800	171,200	183,300
TOTAL WORLD				
<i>All subsidiaries</i>	2,510,000	2,645,000	3,120,000	3,731,000
<i>Manufacturing subs.</i>	1,713,000	1,810,000	2,000,000	2,402,000

*Data refer to the former Czechoslovakia

** Greece, Portugal, Spain, Turkey

Source: Deutsche Bundesbank

⁸ Following the USA (696.000 empl.), France (302.000 empl.), UK (251.000 empl.), Austria (185.000 empl.), Brasil (168.000 empl.) and Spain (156.000 empl.).

The use of the indicator „employment at foreign subsidiaries“ has some advantages compared to monetary indicators such as stock or flow of FDI, since it excludes problems of exchange rate currency fluctuations as well as problems with other contingent influences. For a detailed discussion on indicators to measure corporate internationalisation cf. Dörrenbächer (2000b).

⁹ In 1993 Dt. Telekom took an initial stake of about 15%. This stake was increased to about 33% in the end of 1995 and to 59,53% in July 2000.

In manufacturing, German FDI in Hungary concentrates on a few industries: electronics (Nace 30, 31, 32), automotive (Nace 34), food, beverage & tobacco (Nace 15+16), machinery (Nace 29) and metal products (Nace 28). These five industries together account for approx. 60% of all employment at German manufacturing subsidiaries in Hungary. Comparing German FDI in Hungary with the sectoral structure of *all* German FDI abroad, two major peculiarities become evident:

1. there are very few German investments in the chemical industry in Hungary
2. Hungary is of specific importance for German FDI in labour intensive industries such as apparel and footwear production (cf. table 2).

Table 2: Employment at German manufacturing subsidiaries in Hungary and world-wide by industry 1998

Sector	Employment at German subsidiaries in Hungary (A)	Employment at German subsidiaries world-wide (B)	(A) to (B)
Food, beverage; tobacco (NACE 15+16)	6,300	75,000	8,4%
Textiles (NACE 17)	2,600	49,500	5,3%
Apparel (NACE 18)	3,600	35,300	10,2%
Footwear, leather, luggage (NACE 19)	2,700	20,800	13,0%
Pulp paper and paper products (NACE 21)	n.a.	24,000	n.a.
Publishing, printing & recorded media (NACE 22)	1,400	38,700	3,6%
Chemicals & Cchemical products (NACE 24)	2,900	407,600	0,7%
Rubber & plastic products (NACE 25)	2,900	103,000	2,8%
Other non-metallic products (NACE 26)	4,700	105,500	4,5%
Basic metals (NACE 27)	1,300	36,000	3,6%
Fabricated metal products, except machinery (NACE 28)	4,800	101,000	4,7%
Machinery and equipment n.e.c. (NACE 29)	6,100	240,100	2,5%
Office machinery and computers (NACE 30)	n.a.	12,100	n.a.
Electrical machinery n.e.c.; Radio, TV and telecom Equipment (NACE 31+32)	15,500	364,700	4,3%
Medical precision & optical instruments (NACE 33)	n.a.	n.a.	n.a.
Motor vehicles, trailers (NACE 34)	9,400	599,800	1,6%
Furniture, manufacturing n.e.cv. (NACE 36)	n.a.	n.a.	n.a.
Total manufacturing	73,300	2,401,800	3,1%

Data kindly provided by the Deutsche Bundesbank

More information on who is investing in Hungary, in what region and how, is provided by a database, containing company related information on German FDI in Hungary (Dörrenbächer et al. 2000b)¹⁰ The database that gives information on 136 German investments in Hungary represents 57% of all employment at German manufacturing subsidiaries in Hungary in 1998, as given by the Deutsche Bundesbank.

Having a look at who is investing in Hungary, it turns out that the majority of the investments is undertaken by small (<500 employees) and medium-sized companies (500-5000 employees) companies.¹¹ For a considerable number of the latter two groups of companies, exactly for 45 out of 99 German SME investors in Hungary, the Hungarian subsidiary is the only manufacturing site abroad. For the single largest German investments in Hungary cf. table 3.

¹⁰ Based on an earlier study on the Top 500 German subsidiaries in the Visegrád Countries (Dörrenbächer et al. 1996), data for the Hungarian subsidiaries in manufacturing was updated and enlarged. For many calculations, the project is indebted to Marion Dohle.

¹¹ Out of a total of 136 German investments in Hungary, 99 were undertaken by small (46) and medium-sized (53) companies. In terms of employment, small (17 %) and medium-sized companies (40%) together account for 57% of the whole employment at the Hungarian manufacturing subsidiaries of German MNCs.

*Table 3: The single largest German manufacturing investments in Hungary
In terms of employment (1998)*

German Investor	Hungarian subsidiary	Activity	Employment
VW/Audi	Audi Hungaria Motor Kft., Győr	Manufac. of motors and motor components	3,425
Michels Kabel	AFL Hungary Kft., Mór	Manufac. of wire harnesses for cars	2,500
Bäumler	Styl Ruhagyar Rt., Szombathely	Manufac. of clothing	2,100
Zollner	Zollner Kft, Vác	Manufac. of electronic tools, plastic injection moulding, plate working	1,478
Salamander	Sabona, Bonyhad / Saltis, Martfü	Manufac. of footwear	1,200

German investors as a whole clearly prefer to invest in the more developed regions of Hungary. In 1998, three quarters of all investment was in the developed regions Central and West Hungary¹². Even if it is difficult to draw the line between brownfield and greenfield investments (cf. note to table 4), the former clearly outweighs the latter. In 1998, up to three quarters of all German investments in Hungary were brownfield investments, only one quarter was greenfield investments.¹³ The mode of entry into Hungary has a special regional feature, too: in the developed region of Hungary (Central and West Hungary) greenfield investments are much more widespread than in the East (between one third and half in the West¹⁴ compared to less than 10% in the East¹⁵).

6. THE TRANSFER OF THE GERMAN PRODUCTION MODEL TO HUNGARY VIA FDI: A MICRO PERSPECTIVE

Table 4 summarises some of the main characteristics of the 10 cases, on which this chapter is based.¹⁶ A comparison with the overall structure of German manufacturing FDI to Hungary reveals a rather representative structure of the sample. Almost identical with the overall picture about 70% of the investors in the sample are small and medium-sized companies; for about half of them the Hungarian subsidiary is the only foreign production location. Again very close to the overall trend, three quarters of the cases are acquisitions. Furthermore the sample comprises investments in all those industries, where the amount of German investment is above their world-wide average (with the notable exception of the food/beverage/tobacco industry). Only concerning the location of the investments the sample shows a slight weakness since investments in the developed central and western region of Hungary are slightly underrepresented. Finally, next to large and small Hungarian subsidiaries, the sample comprises strong export-oriented subsidiaries, subsidiaries that mainly produce for the local market, as well as subsidiaries with a split market orientation.

¹² 74 % according to the number of investments; 75% in terms of employment at German manufacturing subsidiaries.

Central/Budapest Region = zip codes 1, 2 (partly) / West Hungary = Zip Codes 2 (partly), 7,8,9 / East Hungary = Zip Codes 3,4,5,6

¹³ 74% according to the number of investments, but only 61% in terms of employment at German manufacturing subsidiaries.

¹⁴ 33% according to the number of investments, but 50% in terms of employment at German manufacturing subsidiaries.

¹⁵ 8% according to the number of investments, 6% in terms of employment at German manufacturing subsidiaries.

¹⁶ These cases are based on interviews in the German headquarters and/or their Hungarian subsidiary, that the author has conducted during October 2000 and March 2001. Most interviews were conducted together with Michael Wortmann. To make the cases anonymous was not required by our interview partners. The existing provisional case studies will be integrated into final case studies by different members of the project team (cf. footnote 1).

Table 4: Main characteristics of the sample

German Investor (size /other foreign manufacturing site)	Plant location in Hungary	Region	Employ- ment (2000)	Products (Nace)	Acquisition (A) or Greenfield (G)*	Market orien- tation **
Balluff (SME / yes)	Vésprem	Developed	390	Electronic and electromechanical sensors, transducers (31)	G->A	Export
Festo (SME / yes)	Budapest	Developed	330	Air preparation devices (29)	G->A	Export
FHP motors (SME / no)	Bercel	Developed	700	Electrical motors (31)	A->G	Export
Heidelberger Zement (Large / yes)	Vac	Developed	550	Cement (26)	A	Local
	Beremend	Developing	350	Cement (26)	A	Local
Kübler (SME / no)	Kazinbarcika	Developing	380	Work apparel (18)	A->G	Export (70%) and Local (30%)
Maerz (SME / no)	Hódmezővásárhely	Developing	280	Pullover (17)	A->G	Export
Nordenia (SME / yes)	Szada	Developed	270	Plastic packaging materials (25), Printing (22)	G	Export (70%) and Local (30%)
Salamander (Large / yes)	Marfű	Developing	850	Footwear (19)	A	Export
	Bonyhad	Developing	n.a.	Footwear (19)	A	Export
Siemens/ICN (Large / yes)	Budapest	Developed	400	Switching equipment (32)	A	Local
Wamsler-SVT (SME / no)	Salgótarján / Bátönyterenye	Developing	1.200	Cookers, heaters, fireplaces (27 + 28)	A	Export (55%) and Local (45%)

* A->G means that following the take-over of a plant, new greenfield like structures were created e.g. by building new production facilities on the old plant location. G->A means that first a joint venture or a new venture was founded, however this joint venture or new venture was fed with personnel and/or technology from an existing plant or company in the neighbourhood. ** figures given relate to turnover

Let's now turn to the transfer issues. Based on a wealth of interesting empirical information provided by the 10 cases, we will in this paper concentrate on some more general conclusions.

5.1 TRANSFER INTENTIONS, FORMS AND RESULTS

One of the most striking common features among the 10 cases is the fact that almost all German MNCs intended a one-to-one transfer of all those aspects of their production model that are related to technology, machinery, production and work organisation. Usually the transfer of those aspects was highly interconnected. Only in one rather exceptional case, where the production technology as such was very outdated, the transfer only aimed at the integration of a few machines and tools into an already existing production in Hungary (Wamsler-SVT).¹⁷

The transfer itself took several forms. In four of the cases studied, an existing plant or production line was built down in Germany, shipped to Hungary and built up there (Balluff, FHP, März, Kübler). Of the same type, but somewhat different was the Siemens case. Here a production line for switching equipment was built down at the Austrian switching plant of Siemens in Vienna and the whole transfer to Hungary was managed by the Austrian subsidiary. In three other cases (Salamander, Heidelberger Zement, Festo) the transfer occurred as a strong modernisation and reorganisation of an existing production. Finally, there was one case, where the investor, based on knowledge gained in Germany over many decades, built up a totally new, state-of-the-art factory in Hungary (Nordenia).

Unlike the well reported flagship case of German investments in Hungary, the Audi-Győr case, where innovations for the whole Audi Group were clearly intended (Kessel/Dörr 1998:2), our case studies revealed only weak intentions to innovate with the investments in Hungary. There is

¹⁷ Wamsler-SVT is a rather exceptional case, since the Hungarian subsidiary (SVT) has taken over its former minority shareholder (Wamsler) in November 2000.

only one case where the investment was somewhat influenced by the possibility to get access to a new product not produced before in the MNC (Festo) and another case where the Hungarian subsidiary over the years gained some, however rather minor R&D tasks for the whole MNC (Balluff). Process innovations were not at all intended in our cases. Companies that used to apply a Fordist production (based on Taylorised work) in their (former) German production (such as Salamander or FHP) did so in Hungary, and companies that followed more modern production strategies in Germany such as flexible specialisation (incl. group work), did so in Hungary, too (e.g. Nordenia, Balluff, Festo). Interestingly, especially the latter companies can hardly be seen as purely transferring a German solution given the many explicitly Japanese aspects such as Kanban or Kaizen, they have incorporated (usually with the help of Japanese consultants) in their firm-specific model.

These rather conservative ideas and aims associated with the transfer of technology, machinery, production and work organisation certainly reflect the large socio-economic gap between Germany and Hungary as well as the conviction of some of our interview partners to run a state-of-the-art, world class, factory. However, with regard to a few companies, this tendency also reflects a strategy of “security first”, with transferring the firm-specific model one-to-one being “...the best way to control any kind of catastrophe” (owner/manager of a German MNC). According to this interview partner these “catastrophes” not only relate to transfer problems as such, but also include labour disputes in Germany.

This refers to the question of transferring the German Model of HRM and IR practices. Despite the fact that many of our interview partners (from the management side) initially maintained that they had transferred the German Model of HRM and IR practices, a closer examination brought a rather different result. Thus, it turned out that in many cases the sheer existence of a works council at the Hungarian affiliate, and the strong desire of the management to transfer the German wage classification scheme were treated as sufficient indicators for the German Model having been transferred. Indeed, almost all companies in our sample aimed at such a transfer of the German wage classification scheme to harmonise wage discrepancies within (and in some cases between) individual wage groups in their Hungarian affiliates¹⁸. And in nine out of the ten cases a works council exists at the Hungarian subsidiary. However, only in two cases these works councils were considered strong enough to really be a bargaining partner for the management. In all other cases the works council was either installed with the help of the management, more or less ignored, or only used to channel information into the workforce. In about half of our cases unions were completely absent at the Hungarian subsidiaries and sectoral collective bargaining did not occur at all. Collective bargaining at the company level was reported for half of the companies. However, in most cases these were rather informal talks on wages and not real bargaining processes. At the other half of the companies, wages and working conditions were only subject of individual negotiations between each employee and the management.

Especially the last two points mentioned imply a strong depart from the German Model of industrial relations. This depart is even stronger if we look at some HRM practices: Trial and error employee selection, the use of leased workers, frequent overtime or work on weekends are in almost all cases simply management prerogatives, that are excessively used by some companies. All in all there is a general tendency to not or only very selectively transfer the German Model of HRM and IR practices. This holds true despite the fact that there are considerable differences among the cases. Confirming the results of Bluhm (2001 forthcoming), large MNCs such as Siemens or Heidelberger Zement are following the German path of labour

¹⁸ These are due to historical legacies and the different regional as well as historical labour market conditions in Hungary.

relations in Hungary much more strictly than many small German investors.¹⁹ This is also half true for those German companies, that apply a high skill Post-Fordist production systems: While these companies rely much more on skilled workers and invest a lot in training, this does not automatically mean, that they also transfer their German IR practices to their Hungarian subsidiary.

Taken together German investors in Hungary seem to follow mixed intentions with regard to their transfer policy. While German investors usually aim at a one-to-one transfer of their firm specific solution with regard to technology, machinery, production and work organisation²⁰ (which is not necessarily a German or a pure German one), they only rather selectively transfer the German Model of HRM and IR policies. And they do so, even taking into account the growing heterogeneity of HRM and IR practices in Germany. Thus all Hungarian affiliates in our case studies turned out to be hybrids, with a rather strong but not exclusive German influence in technology, production and work organisation and a rather strong Hungarian influence in HRM and IR practices. These findings are opposed to orthodox institutionalist thinking (cf. above): First, national models are not pure national models, and second there are clear differences with regard to which functional aspects are transferred.

5.2. TRANSFER PROCESSES, CULTURAL DIFFERENCES AND HEADQUARTER-SUBSIDIARY CONFLICTS

Looking at the transfer process, other differences become apparent. Especially large firms with many (more or less comparable) subsidiaries all over the world (such as Siemens or Heidelberger Zement) followed a very structured approach towards the whole transfer process. Guided by a clear (sometimes codified) transfer blueprint (including a strict time frame), the transfer process itself was managed by an experienced multifunctional and multicultural team. Compared to that, the transfer process at many of the smaller companies was much less structured and relied more on the individual capacity of single expatriate managers from the German investor, who in many cases were intrinsically motivated either by a career step associated with the new task or because they are of Hungarian descent or have other personal relationships to Hungary. Sometimes managers from third companies were hired to carry out the transfer and to run the Hungarian affiliate later-on.

While there was a common complaint, that there is a strong lack of local management personnel, that complies with the expectations of the German investors (i.e. speaking German and having state-of-the-art management and/or technical know how), notably different strategies were followed with regard to local management personnel: Despite the skill gap, a few companies assigned the local management a core role from the outset (e.g. Balluff, Heidelberger Zement). Most investors, however, first trained local management personnel (sometimes in a very structured way, e.g. at Siemens), that later took over the tasks of the expatriate managers leaving. Finally, there were also a few cases where the expatriates were and still are very dominant (e.g. Nordenia, FHP).

As a general rule there was no or only weak training to prepare the expatriates for their task in Hungary. Compared to that, the Hungarian management as well as the Hungarian production workers got rather intensive training (whether this was sufficient or not, is another question). Usually these efforts concentrate on an on-the-job training at the German headquarter and/or at related factories in the MNC. In many cases these factories were not necessarily located in Germany. E.g. in the Siemens case, all training took place in Austria. At Nordenia, machine

¹⁹ However, whether this is a question of size, as argued by Bluhm (2001 forthcoming) and/or a question of market orientation needs to be explored in greater detail.

²⁰ With regard to a few acquisitions, a one-to-one transfer was not feasible, due to existing production means.

workers from Hungary were sent to different affiliates all over the world, depending on where a similar machine to the one in question in Hungary had recently been installed. Training efforts also included on-the-job-training in the Hungarian subsidiary carried out by personnel from the headquarters or from other subsidiaries of the MNC, temporarily transferred to the Hungarian plant. Finally, especially machine suppliers and to a somewhat lesser extent consulting firms played an important role in transferring skills and knowledge to Hungary. Both were not necessarily of German origin, too.

Almost all companies reported frequent emergency visits of headquarter personnel (managers, technicians) at the beginning of their investments, and later a decreasing or increasing intensity of headquarters presence at the Hungarian subsidiary, depending on the actual intensity of the transfer process, that is usually carried out in a sequence of single transfer steps (or projects). This sheds light on the fact that beyond a necessary minimum transfer, the floor is open for different degrees regarding to the "completeness" of the transfer. For one, it is rather obvious that all companies who had (März) or still have more than one factory of the same type in Hungary (Salamander, Heidleberger Zement) prefer to focus most of their transfer and investment efforts on one of their Hungarian affiliates. Two, in some of our cases it was reported that the very favourable cost structure of Hungary till 1996/1997 led to incomplete transfers with regard to the level of efficiency and quality. With the worsening of the international cost position of Hungary (no adequate devaluation of the Forint compared to inflation for in the last three years), especially companies, that aim at low cost export production (such as Salamander or FHP, that are working under the OPT regime) come under severe pressure, that will eventually either lead to a "completion" of the transfer process, or to a relocation of the production out of Hungary.

While the favourable cost position is one point frequently given as a reason for incomplete transfers, other points mentioned by almost all our interview partners are "cultural differences", that are difficult to overcome in a short time. Almost all interview partners identified cultural differences as a major source of problems both during the transfer process as well as later on. Two points were stressed here by many of our German interview partners:²¹ First: In the view of the German headquarter managers, both the Hungarian management as well as the Hungarian workers follow a much more chaotic work style, compared to the very planned and "rational" German approach. According to the words of one interview partner: "...the Hungarians very much like to wait for the problem (or the work) to come and to increase and then to solve (or to do) it in a kind of dramatic emergency action, where they can fully display all their creativity and flexibility..." In most cases this attitude was described as a major problem, to be solved and thus as an attitude that the Hungarian personnel has to give up in full or at least with regard to some crucial aspects of production and management. However, there were also other cases, where this flexibility and talent for improvisation was considered as very helpful. One such case is Salamander, whose very complex system of production, combined with a very volatile demand, creates many steering problems and thus requires a large extent of improvisation and flexibility in manufacturing. The second point refers to the very different importance of interpersonal relations in social fabric of the average German and Hungarian enterprise. Again in the words of one of our interview partners: "While Germans gain a lot of satisfaction from doing their work correctly, Hungarians are much more oriented to satisfy their supervisors". While some of our German interview partners, with a clearly chauvinistic undertone, considered this behaviour of the Hungarian personnel as "obsequiousness", other (more liberal persons) complained about the too authoritarian style of their Hungarian management. Still others stressed the constant frictions emanating from these differences, with regard to more modern types of work organisation that are less personalised, less formalised and less hierarchical.

²¹ Whether these are profound cultural differences or mere legacies of the socialist past, is a rather debatable issue.

Next to these culturally inspired conflicts, a clear majority of the disputes between the German management and the Hungarian personnel reported to us²² dealt with the distribution of the benefits. Of course in most cases our interview partners were rather reticent on those topics, especially due to the fact, that in many cases these conflicts did not only occur in the form of high turnover rates, but also in different attempts to maximise income by using deficits in the control system. Only a few conflicts were not somehow linked to direct income questions. Thus there is evidence of conflicts about the future role (or the destiny) of the Hungarian subsidiary in the MNC, displaying as iterated struggles about investments and R&D tasks. Severe control/autonomy conflicts were not reported to us, which might be a result of the still rather low autonomy of the typical German subsidiary in Hungary, that is either a miniature replica (e.g. Siemens, Nordenia or Heidelberger Zement) or a rationalised manufacturer (such as Kübler, Salamander, Balluff, Festo).²³

5.3 WHAT ROLE AND WHAT OPTIONS FOR GERMAN SUBSIDIARIES IN HUNGARY

A rather low autonomy of the Hungarian subsidiaries resulting from the fact that all subsidiaries are either miniature replicas or rationalised manufacturers does not mean that these companies do not have a strategic role for the whole MNC. On the contrary, in many cases only the transfer of the low end of the value chain such as labour intensive production to Hungary allowed for a future competitiveness of the whole MNC (and for the preservation of the German Model at the remaining units in Germany). While this impact is rather marginal in the case of subsidiaries that serve the Hungarian market, such as Siemens switching production or the cement production of Heidelberger Zement, it is especially true for most strongly export-oriented subsidiaries. Whether these subsidiaries that are not protected by a domestic demand are able to use their current strategic position as a window of opportunity (e.g. to become product specialists or strategic independent subsidiaries) depends on many developments in and outside the company. However, what can already be seen at the moment, is the fact that companies that have a rather strong indigenous local management as well as rather strong employee representation have much higher chances of succeeding. Other subsidiaries, that can neither rely on a strong local management nor on an effective employee representation seem to “fly blind”,²⁴ with some of them being in danger of losing their current position by a further relocation, once important environmental conditions deteriorate. Taking into consideration the Hungarian path of transformation, that is strongly relying on foreign investments, this might not only be a problem for some individual companies but for Hungary as a whole.

²² We are aware of the fact, that by far not all conflicts are reported to us, due to the sensibility of the issue, as well as due to the fact, that such conflicts are systemic.

²³ Control of the subsidiaries is in most cases exercised by a mix of bureaucratic and cultural means, with some additional control options emanating from the cross border connection of ERP-systems such as SAP (e.g. at Balluff, Nordenia or Festo).

²⁴ I borrowed this term from a very interesting article by Greskovits/Bohle (2000:4) on Poland's and Hungary's way to become Europe's new periphery.

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