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How social interaction matters for work practices in Western and Eastern Europe

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For over fifteen years countries in Central and Eastern Europe (CEE) have been intensively exposed to interaction with Western Europe. In this period, ties between the two regions have been strengthened in many aspects of economic and political life. Still, important stylized differences remain between West and East, for instance in the functioning of labour markets, extent of state regulation of the economy, industrial relations systems, and various micro-level institutions in work practices, motivation, and norms of economic behaviour (Kahancová 2007; Martin/ Cristescu-Martin 2004; Kohl/ Platzer 2004; Thelen 2001; Sagie/ Koslowsky 2000; Meardi 2002).

Whether CEE is heading to a Western European institutional setup, and which forces drive such convergence, is closely related to ongoing debates in the varieties of capitalism literature (Bandelj 2003; Blyth 2003; Hall/Soskice 2001; Hollingsworth/Boyer 1997; Boyer 1996; Berger/Dore 1996). Next to European Union integration driven by macro-political processes, Western foreign direct investments (FDI) in CEE and multinational companies' (MNCs) subsidiaries in both West and East are one of the most important vehicles of economic interaction and, hence, possible institutional convergence at the micro level (Marginson/Meardi 2006; Gradev 2001; Bluhm 2000). With their actions, MNCs can significantly contribute to the diffusion of similar practices across both regions. Alternatively, MNCs can reinforce or further generate variation in work practices and industrial relations systems between Western and Eastern Europe. Uncovering actions of MNCs is therefore crucial for our understanding of the complexity of East-West differences and prospects for institutional convergence.

Building on an empirical study of MNCs' work practices and their determinants, this article documents a particular way in which a selected MNC copes with diverse labour

markets and industrial relations in its Western and Eastern European locations, and how it benefits from the ability to develop different work practices in different conditions. Studied work practices are an outcome of the MNC's action and include employment flexibility issues (working time organization, changes in worker headcount and presence of temporary workers), motivation, worker empowerment, and social provisions that the company grants to workers. The explanation for why work practices continue to differ between the Western and East European subsidiaries of the MNC lies not merely in the economic and legal influences, such as labour cost competition, drive towards efficiency and profits, and differing labour laws, worker rights and trade union positions. Instead, company values and beliefs, and other processes that are non-economic and non-legal in their nature significantly influence the company's economic action and resulting work practices (Pfeffer 2005). Among these influences, the article focuses on social interaction between the MNC and workers and trade unions in its subsidiaries in Western and Eastern Europe. Social interaction relates not only to formal structures and negotiation between the MNC and others, but also to informal relations, communication, and trust between managers, workers and union representatives that may affect choices otherwise be regarded as "rational" (Fox 1974; Smelser/Swedberg 2005). Social interaction is then a situation where the behaviour of the MNC is consciously reorganized by, and influences the behaviour of, workers and unions (Turner 1988: 13-14).

Acknowledging that the management-workforce relationship is important for both the workers and the employer, the MNC balances its needs of competitiveness and efficiency with social and psychological needs of workers. As institutions and social norms differ between Western and Eastern Europe, the company reinforces differences in work practices through reflecting, or even adapting to, different interests of people in both regions. Therefore, social interaction between the MNC and local workers and trade unions is central in explaining variation in work practices.

The studied MNC and variation in local conditions

Evidence on the influence of social interaction on work practices has been collected in two Western factories (Belgium and France) and two factories in CEE (Poland and Hungary) of an important Dutch manufacturing MNC. I analyzed company documents and conducted 114 detailed face-to-face interviews with human resource managers and production managers in the factories, as well as interviews with local union representatives and managers and union leaders at the company's headquarters.

The similarity of factories because they are all part of one MNC and produce similar products, on the one hand, and the differing host-country laws, industrial relations systems and common employment practices, on the other hand, allow us to control for corporate influences, and at the same time explore management behaviour and social interaction with local workers and trade unions in various conditions (Kahancová 2007). The Belgian factory (hereafter BEF) is located in a highly industrialized region with many employment opportunities; the French factory (FRF) benefits from the region's relatively high unemployment and availability of temporary agency workers. The Polish factory's (PLF) conditions are characterized by very high levels of unemployment (concerning mainly unskilled workers) despite the presence of several MNCs and thus job opportunities. The Hungarian factory (HUF) faces a tight labor market, which forces the factory to develop innovative ways to secure enough workers.

Next to differences in local unemployment conditions important variation between the Western and Eastern subsidiaries also exists with regards to the position of trade unions, established work patterns and effective motivation practices (Kohl/Platzer 2004; Michailova 2003; Danis 2003; Meardi 2002; Sagie/Koslowsky 2000; Whitley, et al. 1997). In stylized terms, these differences reflect broader institutional differences in the Western and East European societies. In Belgium and France workers expect long-term employment with a fixed working time and good working conditions. A collective spirit that exists among Western workers is not as evident in CEE; workplace competition and the use of performance-related pay is therefore greater in Poland and Hungary than in Belgium and France. In CEE, probably due to economic hardship and unemployment, people value their jobs and are willing to accept lower pay and worse employment conditions than workers in the Western workplaces. Trade unions in Western

Europe are well established and considerably stronger in Belgium and France than in Poland and Hungary. Legal regulation of union rights is more extensive and membership is higher in Western Europe than in CEE.

In these different conditions, the studied MNC remained responsive to local working habits and trade union roles. Instead of diffusing economically motivated and universally applicable work practices the company continues to tailor work practices to local conditions. This is an outcome of a long-term corporate value of decentralized human resource management and local responsiveness (Bartlett/Ghoshal 2002). The MNC's managers also confirm this finding:

"In our experience, national management initiative is the best way of ensuring the flexibility and adaptability necessary in widely varying circumstances" (Dronkers 1975: 166).

Social interaction, including both structured meetings and informal daily communication between management and factory workers and trade unions, is the most important channel through which the company familiarizes itself with local conditions and eventually involves local actors in its decisions about work practices. Before discussing social interaction in the factories, the next section summarizes observed differences in the studied factories' work practices.

Comparing work practices

Most important differences in work practices apply to employment flexibility, workers' fringe benefits, social welfare, motivation, performance pay, and workplace industrial relations. All factories face extensive production seasonality but reveal great differences in their responses to the seasonal workload, in terms of the balance between permanent and temporary contracts or use of temporary agency workers. In BEF and FRF, weekly high-season working time exceeds the legally stipulated workweek and extra hours are compensated with more holidays. This means that these West European subsidiaries find flexible solutions outside of the legal regulations to handle seasonality.

Differences also exist in fringe benefits and social welfare of production workers. Against other evidence from CEE (Bohle/Greskovits 2003; Meardi 2002), benefits and social services in terms of costs and managerial creativity are

more extensive in CEE factories than in Western factories. This is due to the maturity of Western factories and strong unions that account for stability in wages, work conditions, and, to a certain extent, also job security. By contrast, working conditions in CEE factories are more difficult and paid less than in the West, and it is in line with the MNC's values to compensate tough working conditions with benefits for workers' personal wellbeing. Social services are thus developed and tailored to local people's needs, and this fact stimulates good working conditions, open communication and informal relations. The company maintains such action even if alternative possibilities exist from a rational perspective. To illustrate, management in PLF does not hire temporary workers based on their performance, but also according to family status and children. It's not that these workers have higher productivity, but the company wishes to improve their personal situation and income.

Finally, differences exist in the factories' industrial relations; and these do not mirror industrial relations traditions in Western and Eastern Europe. Instead, a distinction applies to factories with cooperative industrial relations, and those with a conflict-based management-union interaction. On the one hand, in BEF and PLF industrial relations are interactive and mostly cooperative with agreed tradeoffs. On the other hand, ideological differences between unions and the MNC facilitate conflicts and complicate industrial relations in FRF and HUF. Interaction is less cooperative, includes threats and militant actions, and is limited to formal meetings and rare informal agreements. Such differences are reflected in union involvement in the development of work practices.

How social interaction matters

Possible differences that exist in various forms of interaction between factory managements and workers, and factory managements and trade unions, are very important for the factories' success. The success is brought by workers' productivity, for which suitable work practices, such as fair working time organization and rewards, workers' feedback to managers, and fringe benefits are essential. In management-worker social interaction, a low communication barrier and trust between managers and workers are most important for worker satisfaction with their work practices. In line with the MNC's organizational culture and administrative heritage, informal social interaction between managers and workers in all four subsidiaries is highly

encouraged and takes different forms in different conditions. In BEF the managers know all permanent workers by their first names and are well informed about workers' needs and concerns. On the other end of the spectrum of interactions is HUF where due to the large workforce size personal contacts are not as extensive and managers communicate mostly with teams of workers. Another important aspect of informal interaction between managers and workers is the company's attention to local hierarchies. FRF maintains the hierarchy between the worker and his/her boss, which is common in the French work systems (Brunstein 1995). Communication is more formal, whereas extensive informality within the existing hierarchy exists in BEF where workers call their managers by first names. Similar informality in management-worker interaction exists in HUF, which is according to my observations in line with common practice in Hungary. Conforming to general Polish work practices observed during fieldwork, PLF respects a hierarchy, but in line with Polish conventions people generally call themselves by first names and communicate informally after they had informally agreed to do so. These examples illustrate the MNC's adaptation to local norms, which improves management-worker interaction and thus enables the development of optimal work practices. In sum, evidence suggests that social interaction between managers and workers in MNC factories does shape work practices, mainly workers' willingness to accept flexible working hours and organization, performance pay and to provide feedback for managerial decisions and accounts for a better match between the MNC's goals and workers' needs in particular local conditions. Internal surveys in the factories, as well as trade unions opinions show that the MNC's adaptation to local conditions instead of imposing "foreign" practices is appreciated.

Besides management-worker interaction, management-union interaction is central for work practices, because all concerned actors assign high priority to the management of work practices. The analysis reveals that given the MNC's organizational heritage, managers in all factories are interested in cooperation with local unions, whether or not there are economic advantages or a legal requirement to do so (Kahancová 2007). This means that the company seeks social interaction with local actors without knowing the benefits of such interaction in advance. This is the MNC's preferred strategy in seeking accommodation to local conditions; in particular, when designing optimal work practices relative to opportunities and constraints in Western and Eastern Europe. Whether interaction with workers and unions will facilitate this aim is not known in

advance, but the MNC invests in this interaction anyway, according to its corporate values. The other alternative is unilateral rational MNC action with limited union influence on factory work practices.

Does the extent and type of social interaction between the company and local unions reflect differences in legal regimes in Western and Eastern Europe? If the degree of legally stipulated coordination between employers and employee representatives were central in determining social interaction with unions and union involvement in work practices, one would observe a regional pattern of interaction: there would be more extensive social interaction with unions in Western Europe than in CEE because legal prescriptions are stronger. However, evidence does not reveal such a divide and examples of each pattern can be found in both Western Europe and CEE. Differences in management-union interaction mirror the contrast between factories with cooperative industrial relations and a high level of trust (BEF and PLF), and those with conflict-based industrial relations and low trust (FRF and HUF). Unions are extensively involved in designing work practices in the former factories. In the latter factories, the MNC develops locally optimal work practices unilaterally, or with union involvement not exceeding legal requirements.

As for economic reasons to involve local unions in work practices, evidence shows that management-union interaction is not limited to formal bargaining based on strategic calculations. Instead, workplace industrial relations obtain their typical spirit from the existence of informal social interaction, such as daily corridor talks and e-mails that rarely relate directly to particular economic benefits and utility maximization of the company. In factories with cooperative industrial relations managers involve unions in designing work practices even without a clear prior indication of economically superior outcomes. Managers could have taken the same decisions unilaterally. However, whereas cooperative management-union interaction enhances union involvement, it does not mean that conflict-based industrial relations hinder the company's pursuit of desired variation in work practices. The consequence of union antagonism has been their exclusion from decisions that are reached jointly in factories with more cooperative industrial relations. In factories with limited union involvement, managers' interaction with workers (i.e. communication, hierarchies, feedback possibilities) still matters for work practices. This finding supports the main argument that variation in work practices across the factories and regions is best explained by the company's social interac-

tion with local workers and unions, influenced by corporate and local values.

Conclusions and theoretical relevance

This article highlights the active role of social interaction and company values in maintaining, or further enhancing, the existing variation in work practices in Western and Central Eastern Europe, contradicting the thesis of cross-national convergence or variation based merely on local institutional conditions. It shows that a Dutch MNC is responsive to local institutions, the conditions of its social embeddedness, and the engagement of local actors in the MNC's decision-making. Differing labour markets and laws in the host countries cannot fully explain the observed variation in work practices. Instead, it is the company's values and social interaction with local actors (workers and trade unions) that explains variation. This is a concrete way for the company to benefit from different local institutions in Western and Eastern Europe and an alternative to unilateral managerial decisions concerning work practices.

Two ways in which social interaction matters for work practices are distinguished. First, interaction of company's managers with workers and trade unions in different countries enables the company's adaptation to local conditions by learning people's work habits and interests. Company values assure that decisions about work practices reflect people's needs and local social norms. Social interaction thus facilitates a kind of company behaviour that reinforces broader societal and institutional differences between Western and Eastern Europe. However, evidence shows that differences in work practices do not persist only because MNCs adapt to local conditions and differing legal regulations. A closer look at Western and Eastern workplaces reveals new divergences that do not replicate the stylized East-West differences. Instead, differences in work practices and the way they are created are an outcome of workplace social interaction and actors' voluntary commitment thereto, regardless of factory location in Western or Eastern Europe. This is the second way in which social interaction influences work practices and their non-convergence between the two regions. In factories with cooperative social interaction and extensive trust management opts for union and worker involvement even without legal obligations or economic motivation to do so, and thus local actors are more involved and able to shape work practices. In contrast, in factories with hostile relations and limited informal interaction the company has developed its

locally optimal work practices without extensive worker and union involvement.

What is the theoretical relevance of this finding for economic sociology? The study combines the influence of institutional factors on company economic action with the influence of social interaction and values on existing differences in work practices in different conditions. In paying attention to the purposeful action of actors and the enabling, constraining, and shaping effects of given (but variable) institutional structures and institutionalized norms, this approach to company's economic action fits the concept of actor-centred institutionalism (Scharpf 1997) and aligns with the research in the varieties of capitalism tradition (Hall/Soskice 2001). However, it goes beyond the normative influence of institutions on actors' rational economic behaviour (Streeck 1997) and emphasizes actors' voluntary commitment to informal norms that arise in their social interaction. Social interaction is understood as a mechanism to cope with uncertainty in the environment surrounding the actors (Beckert 1996). At the same time, social interaction facilitates the institutionalization of different work practices and consequently institutional divergences between different environments.

In sum, the study dialogues with three theoretical insights. First, the institutionalist literature highlights diversity between countries that is based on persistent variation in their institutional environments (Hollingsworth/Boyer 1998; Berger/Dore 1996). This article shows that not only the institutional diversity, but also actors' values, social interaction and interest in benefiting from various local conditions play a central role in explaining differences in institutions and social norms. Second, the article addresses theories of organization and company behaviour by highlighting the complexity of actors' goals. The MNC studied does not resemble a homogenous and rational economic actor with internally determined processes of decision-making but an actor with a multiplicity of interests (Pfeffer 2005; Pfeffer/Salancik 1978). The interest of the company should therefore not be limited to a single economic interest of profit-making, because the influence of values and social interaction reveals economic action that is not always as fully rational as assumed in rational choice theories of company behaviour (Grandori 1987). Through social interaction, the rationality of the MNC is not undermined, but contextualized and enriched. This means that MNCs actively contribute to maintaining, or further generating variation in micro-level institutions, instead of attempting to overcome local differences by disseminating rational

best practices across a variety of host-country conditions. Finally, uncovering how social interaction happens at different workplaces and how it matters for variation in work practices helps to further conceptualize and theorize some central concepts in economic sociology, such as the conditions of social embeddedness of economic action of individual and corporate actors (Granovetter 2005; Beckert 2003; Granovetter 1992).

Marta Kahancová is writing her PhD. dissertation at the Amsterdam School for Social Science Research, University of Amsterdam. In 2006 she is a visiting PhD. student at the Max Planck Institute for the Study of Societies in Cologne. Her PhD. dissertation, with a preliminary title Western Multinationals and the European Diversity: Shaping the Convergence of Employment Practices, explains why there are striking differences in employment practices across several subsidiaries of a single multinational firm in Western and Eastern Europe. The dissertation shall be completed in 2007.

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