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National business systems and the international transfer of industrial models in multinational corporations: Some remarks on heterogeneity

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discussion paper

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**National Business Systems and the
International Transfer of Industrial
Models in Multinational Corporations:
Some Remarks on Heterogeneity**

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Abstract

Using the case of German foreign direct investments (FDI) in Hungary, this paper is dealing with the international transfer of industrial models in multinational corporations (MNCs). Based on qualitative research in 10 German MNCs, that have invested in Hungary during the 1990ies, the paper criticizes some central arguments of the national business system approach towards corporate internationalisation, especially the notion of a rather strong and uniform country of origin effect.

Zusammenfassung

Dieses Papier beschäftigt sich am Beispiel deutscher Investitionen in Ungarn mit dem internationalen Transfer von Produktionsmodellen in multinationalen Unternehmen. Gestützt auf qualitative Erhebungen in 10 deutschen multinationalen Unternehmen, die während der 1990er Jahre in Ungarn investiert haben, werden in dem Papier einige zentrale Argumente des „national business system“-Ansatzes, insbesondere dessen Annahme eines ebenso starken wie einheitlichen Heimatlandeffekts, kritisiert.

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1. Introduction¹

One of the core topics of the debate on national business systems is the question whether different national models 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). In this debate, a 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. Here the national business systems literature generally assumes, that MNCs from a specific home country interfere into the existing competitive and institutional settings of the countries in which they invest, mainly by transferring as far as possible their production techniques and labour practices. While this rather general assumption is certainly not wrong, some of its more detailed arguments – especially on the unity of the behaviour of all MNCs from a certain home country as well as on the unity of locational and organisational conditions in the host country – seem to be debatable.

Following this objective, this paper, using the empirical case of German foreign direct investment (FDI) in Hungary, will put emphasis on heterogeneity, both of the transfer strategies of MNCs from a certain home country (Germany) as well as of the locational conditions in the host country (Hungary). After a short review of some central assumptions of the national business systems approach to corporate internationalisation and a few theoretical remarks on the international transfer of industrial models in MNCs, we first look, whether there is a uniform German industrial model, all German MNCs might feel inclined to transfer when investing abroad. Since not all elements of a national industrial

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 useful hints the author is grateful to G. Dörr, K. Bluhm, J. Gammelgaard, K. Hirschfeld, T. Kessel, R. Lungwitz, E. Preusche, S. Quack, T. Schulten and M. Wortmann. Previous versions of the paper were presented at the workshop "European Restructuring in a Global Economy" jointly organized by the MIT, SOFI and WZB (Berlin, 30th November 2001) and at the 27th annual meeting of the European International Business Academy (EIBA) (Paris, 14th December 2001).

model are transferable by MNCs,² this paper concentrates on those elements whose transfer lie in the hands of MNCs. That is: the transfer of (1) the production model encompassing e.g. technology, machinery (and associated skills) production and work organisation and (2) the transfer of the model of labour practices including specific human resource management (HRM) and industrial relations (IR) practices. Next to that we will shift perspectives and look at regional differences that Hungary displays as a location for foreign investments. Having thus dealt with the institutional background we will take an empirical look at the real transfer processes that occurred in German MNCs investing in Hungary.

2. Multinational Corporations and National Business Systems

Dealing with MNCs from an institutionalist point of view is a rather new phenomenon. It was not until the beginning of the 1990s that institutionalist thinking, strongly put forward in the 1970s and 1980s, 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. In this view, 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, MNCs are by no means free to choose a single best practice solution, but their internationalisation is shaped by their specific economic, political and institutional home environment (e.g. Ruigrok/van Tulder 1995). However, very much like the best practice approach, pure institutionalist explanations on corporate internationalisation have been criticised for not being complex enough. Mueller (1994) stressed that the behaviour of MNCs generally reflects both societal

2 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 (cf. Bluhm 2001, Tüselmann et al. 2000).

embeddedness *and* global best practices, with global best practices mainly spurred by: (1) a growing convergence of product and process technology within sectors, (2) an increasing use of benchmarking as a tool for cross-sectoral dissemination of best practices and (3) a strong exchange of technology and management practices within MNCs. Taking that differentiation a step further, Dörrenbächer (2000) added corporate idiosyncrasies as an explanatory factor for the internationalisation of companies. As a reason he mentions that there is manifold empirical evidence that companies rooted in the same industry (or segment thereof) and the same national business system show remarkable differences in their internationalisation behaviour. According to this approach corporate idiosyncrasies might be shaped by structural aspects (such as the age, the size or the degree of diversification of a company) as well as by the “specific historical development or in other words the “trajectory” (Boyer/Freyssenet 1995) of a company.

Beyond the critique, that the national business system approach (alone) is not complex enough to explain the real life variance in overall corporate internationalisation, a second point to be explored in more detail in this paper, needs specific attention: Many institutionalist approaches to MNCs (e.g. Hu 1992, Sally 1994, Ruigrok/van Tulder 1995, Pauly/Reich 1997, Whitley 1999, Morgan et al. 2000) put a strong emphasis on the impact of the country of origin (or the home country) of the MNC. This is somewhat ignoring the fact the multinational corporations are *sui generis* located in more than one national business system with both home and (different/multiple) host country effects being at work. While Morgan et al. (2000) explain this limitation by pragmatic reasons, Whitley (2001) considers host country as well as foreign subsidiary influences as rather uninteresting since, according to his opinion, these influences are in most cases not very likely to provoke a fundamental organisational change throughout the whole MNC: The “... discussion of how different kinds of firm from different business systems and institutional contexts are likely to conduct their FDI in contrasting business environments emphasizes the continuing importance of their domestic institutions and established ways of coordinating economic activities in their home economies” (Whitley 2001: 60-61). Here, two remarks have to be made.

- First, the very strong emphasis on the country of origin influences seems to be debatable, taking into consideration the strong strategic desire of the top management of many MNCs to flee certain aspects of their country of origin business system and/or to learn from or to experiment with aspects of other business systems. In addition it has to be kept in mind that today the dominant way to internationalise is external growth by (often rather large) M&As (Wortmann 2000), and it is especially these large acquired subsidiaries and their managers that are assigned a strategic role, “... not only for their own company but for the MNC as a whole” (Hedlund 1986: 22). In this perspective, that has received growing attention in recent years (e.g. Goshal/Nohria

1989, Gupta/Govindarajan 1994, Birkinshaw et al. 1998, Kristensen/Zeitlin 1999, Gammelgard 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 due to their specific organisational assets and local embeddedness might systematically contribute to the firm specific advantages of MNCs.

- Second, taking an overall MNC perspective like Whitley does, is systematically hiding host country influences, that might have a strong influence on the foreign subsidiaries of the MNC in question. Such host country influences are reported to be especially strong with regard to all human resource management and industrial relations issues (Rosenzweig/Nohira 1994, UNCTAD 1994). Next to that, taking an overall MNC perspective is only delivering one single picture for the MNC, despite the fact that by nature an MNC encompasses many different views, that in many cases lead to very relevant micro political struggles with the MNC.

All in all it seems that the national business system approach (despite strong merits in the comparison of MNCs from different home countries) can only partly explain corporate internationalisation and thus needs to be accomplished by other approaches. One such approach, that is more opening the "black box" of internationalisation is the emerging literature on the transfer of industrial models in MNCs.

3. The Transfer of Industrial Models in MNCs

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.

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 un-codified skills or capabilities (Bruland 1991). Going beyond the transfer of a single machine or technology and looking at the transfer of whole industrial models, similar, but much more complex problems arise. This is easily understandable looking at what is an industrial model. According to the definition underlying this paper an industrial model consists of (1) a production model encompassing e.g. technology, machinery (and associates skills) production and work organisation and (2) a model of labour practices including specific human resource management (HRM) and industrial relations (IR) practices.

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, shop floor employee representation, employee information, consultation and participation) throughout MNCs (for a recent overview cf. Tüselmann et al. 2000).

3.2. *Results*

Almost all empirical studies that look at the cross-border transfer of industrial models come to the conclusion that a certain amount of change is always necessary to successfully run a factory or a business developed in one national 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/IR 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 (cf. too Boyer et al. 1998).

3.3 *Processes*

Up until now a clear process focus is somewhat underrepresented in the literature on the transfer of industrial 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 industrial 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 short discussion of transfer issues, we will 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 within the German Model since the beginning of the 1990s (Flecker/Schulten 1999, Muller 1999), we will show that there are different company specific interpretations of the German Model so far, that might be the basis of what German companies wish to export when internationalising.

4. The German Model and its Industry/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 providing long-term credit 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).³

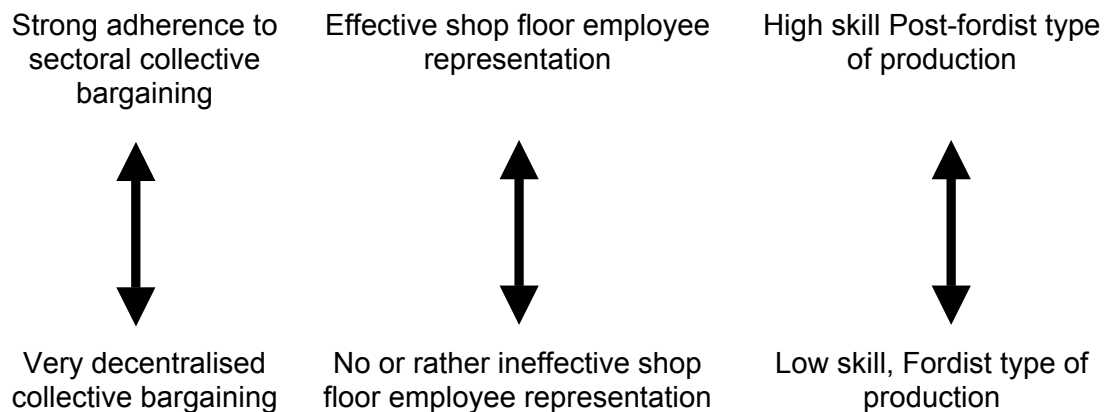
An increase in the heterogeneisation of the German Model as a whole occurred with the post-unification crisis in Germany and the flaring up of the discussion about the competitiveness of Germany as a production location from

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

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,⁴ 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 industry or respectively company specific interpretations of the German Model (cf. figure 1).

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



4 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).

5. Hungary as a Heterogeneous Location for Foreign Direct Investments

Heterogeneity is not only restricted to the firm specific interpretation of the relevant country of origin business system but refers also to regional differences in host countries. As many other Central and East European countries, Hungary shows strong regional inequalities with regard to different aspects that are crucial for foreign investments. These include:

- labour market conditions (e.g. availability of a skilled workforce)
- infrastructure conditions (e.g. availability of transportation and communication means and other economic structures such as related industries, business services, sufficient housing conditions, cultural offers etc.) and
- industrial relations conditions (presence of trade unions, works councils, collective bargaining structures).

It is widely maintained that Hungary is historically displaying a double divide with regard to many aspects just mentioned. One split is between Budapest and the larger provincial cities on the one hand and the small and medium sized cities as well as the countryside on the other hand. This split, inherited from pre-socialist times prevailed despite the egalitarian attitude of socialist regional policy and was aggravated due to the general decline of the agricultural sector in the post socialist transition process (Cséfalvay et al. 1997). The second split is between East Hungary and Central/West Hungary. Here especially the Budapest region and the regions neighbouring the Austrian borders do possess a much better infrastructure than the East. Taking a low unemployment rate as an indicator for a work force, flexible enough to adjust to the transformation needs during the 1990ies, again the Central region around Budapest as well as Western Hungary are much more favourable to foreign investments than the Eastern part of the country. Finally the heterogeneity of Hungary as an investment location also relates to industrial relations conditions. Despite a generally low level of regulation, the more modernized Central and Western parts of Hungary today display a somewhat higher level of regulation, resulting from a stronger presence of trade unions and a more widespread existence of works councils (Toth 1999, Kisgyörgy/Vámos 2001). Probably more important with regard to the regional heterogeneity of Hungary as an investment location are the results from the extremely individualized and decentralised Hungarian wage determination system (Neumann 2000). Here the local labour market performance is playing a decisive role, with the labour markets in Central and West Hungary

being rather tight (and wages rather high) as a result of a strong concentration of foreign direct investments in those regions.⁵

6. The Transfer of the German Industrial Model to Hungary via FDI: Empirical Results

In line with the general trend, also German FDI have concentrated in the more developed Central and Western region of Hungary. Taken as a whole Hungary today is the seventh most attractive host country for German investments and Germany is the single largest foreign investor in Hungary. German investments in Hungary concentrate on a few industries such as electronics, automotive, food beverage & tobacco, machinery and metal products. These five industries account for approx. 60 percent of all German investments in Hungary (in terms of foreign employment). Compared to the overall structure of German FDI, Hungary is of specific importance for labour intensive industries such as apparel and footwear production.

Out of a total sample of about 150 German investments in Hungary we have selected 10 cases (cf. Table 1), for a closer examination of transfer issues.⁶ These 10 cases represent to a large extend the main structural characteristics of the total sample (Dörrenbächer et al. 2000b).⁷

5 In 1999 unemployment was below 6 percent in Central (Country of Pest) and parts of Western Hungary (Countries of Zala, Vas, Győr-Moson-Sopron) compared to 12 or more percent in all eastern and most southern parts of the countries (OECD 2000: 113)

6 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).

7 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.

Table 1: Main characteristics of the sample

German Investor (size/other foreign manufacturing site)	Plant location in Hungary	Region	Employment (2000)	Products (Nace)	Acquisition (A) or Greenfield (G)*	Market orientation**
Bailluff (SME/yes)	Vésprem	Developed	390	Electronic and electro-mechanical 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
Kübler (SME/no)	Beremend	Developing	350	Cement (26)	A	Local
Maerz (SME/no)	Kazinbarcika	Developing	380	Work apparel (18)	A->G	Export (70%) and Local (30%)
Nordenia (SME/yes)	Hódmezővásárhely	Developing	280	Pullover (17)	A->G	Export
Salamander (Large/yes)	Szada	Developed	270	Plastic packaging materials (25), Printing (22)	G	Export (70%) and Local (30%)
Siemens/ICN (Large/yes)	Marfű	Developing	850	Footwear (19)	A	Export
Wamsler-SVT (SME/no)	Bonyhad	Developing	n.a.	Footwear (19)	A	Export
	Budapest	Developed	400	Switching equipment (32)	A	Local
	Salgótarján/Bátonyterenye	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. SME =small & medium sized enterprise.

Source: Own data basis.

6.1. *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 industrial model that are related to technology, machinery, production and work organisation (i.e. the production model). 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 site in Hungary (Wamsler-SVT).⁸

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 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, too, 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.

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

These rather conservative ideas and aims associated with the transfer of the production model (i.e. 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 production 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 labour practices (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 showed 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 affiliates⁹. 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 Ger-

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

man 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), large MNCs such as Siemens or Heidelberger Zement are following the German path of labour relations in Hungary much more strictly than many small German investors.¹⁰ 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 production model¹¹ (which is not necessarily a German or a pure German one), they only rather selectively transfer the German Model of labour practices. 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.

6.2. *Transfer Process*

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

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

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

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 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 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, Heidelberger 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 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.

7. Conclusions

Unlike orthodox institutionalist thinking our empirical cases reveal that - keeping both home and host country stable - there is still a lot of heterogeneity in corporate internationalisation. Companies do vary with regard to what aspects of their industrial model they transfer abroad, and to what extent these transfers occur. In our empirical cases all companies aimed at a one-to-one-transfer of their firm specific production model, and thus mirrored the heterogeneity inherent in the German Model (e.g. with regard to the dichotomy of low skill, Fordist type and high skill Post-Fordist type of production). Big differences however occurred concerning the export of their respective labour practices. Here it turned out that only the rather large German MNCs and those (smaller) German MNC, that assigned their Hungarian subsidiary a strategic role for the future of the whole MNC, showed a tendency to strongly reproduce their home country behaviour abroad (although the reproduction was far from being complete).

Furthermore some of our cases raise serious doubts about the question whether all German MNCs transfer something like a German Model. Following the long and intense debate about lean production, Kanban and the like, some of the German firms studied, can hardly be seen as maintaining a pure German industrial model, since many aspects thereof (with the notable exception of IR practices) looked rather Japanese. Thus, there is already a hybridisation at the source of the transfer. In addition, in some cases both the transfer of physical assets as well as the transfer of knowledge did (sometime very systematically) involve other than German units of the MNC in question, in some cases even (foreign) organisations outside the MNC (such as machine suppliers or consultancies undertaking training measures).

Finally there was also a striking heterogeneity in the quality of the transfer process, with the large MNCs following a much more structured approach than most of the small and medium sized MNCs. Despite the fact that in none of the ten cases examined, the transfer really failed, it is obvious that in those cases where the transfer process was rather chaotic and incomplete a higher risk for a further relocation exists, with severe drawbacks for the Hungarian subsidiary guaranteed and problems for the whole MNC (especially for the smaller ones) being rather likely.

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