Who is Hybridising What?
Insights on MNCs' employment practices in Central Europe

G. Meardi, University of Warwick, and A. Tóth, Hungarian Academy of Sciences

Introduction

The enlargement of the EU to ten new countries, of which eight post-communist countries with significantly lower labour costs, has increased the opportunities for international reorganisation of production for multinational companies (MNCs) and, with this, for 'coercive comparisons' and efficiency-oriented transfers of practices. This paper discusses the dynamics in place through two longitudinal case studies on two foreign investors that are active in the region since the beginning of the economic transformation in Central Europe. The two cases represent opposite situations: a greenfield investment in a non-union site by a medium-size company versus a large MNCs investing in strongly unionised brownfield sites (the first company will not be named for confidentiality reasons, the second will in order to avoid ridiculousness).

Both cases, through different paths, show that the transfer of practices by MNCs in Central Europe leads to hybridised outcomes, but with dynamics that are hardly understandable through the lens of prevalent images of 'hybridisation'. Rather than the country of origin pushing through its models against host country constraints and resistance, it is the host country that attracts MNCs and encourages innovation. In a way, this is the opposite of what views of MNCs as 'missionaries' would suggest. Such a situation, it will be argued, requires a better understanding of power relations at play and of actors' strategies ('who' is hybridising) and a better analytical distinction of the different practices that are transferred or adapted ('what' is being hybridised).

The structure of the paper is as follows: a first section will discuss existing debates on hybridisation; a second one will quickly introduce to the specificities of Foreign Direct Investment (FDI) in Central Europe; the third and fourth one will discuss the two case studies; and the conclusion will make some theoretical and policy observations.[1]

1. Hybridisation theory: insights and limits

The original image of hybridisation: the troubles of Japanisation

The idea of 'hybridisation', theorised by Robert Boyer on the grounds of GERPISA empirical evidence on production models in the automotive industry and especially on the problems of 'Japanisation', has offered a useful, and indeed soon popular, conceptual tool for the analysis of internationally integrated production by MNCs. Yet this paper will attempt to develop the idea, advanced in particular by Dörrenbächer (2002), that most research on 'hybridisation' has made too rigid and mechanical a use of it. In particular, although the theory of hybridisation as such does

[1] This paper draws in some parts on two international projects on FDI in Central Europe, sponsored by VW Foundation and ESRC. The authors are therefore grateful to the co-operation of research team colleagues, without whom these parts would not have existed. In particular this text is indebted for research and theoretical contributions to Mike Fichter, Christoph Dörrenbächer, Paul Marginson and Adam Mielczarek. However, the authors are solely responsible for the content and mistakes of this paper.

not inherently require so, it has often maintained an implicit assumption of MNCs being rooted in a home country model and therefore only concern with 'diffusing'. This implicit assumption arguably derives from the initial GERPISA's intent to contest the idea of full transferability of Japanese models (Womack et al. 1990). Such focus has led to a scarce interest in situations where transferability is not a goal of MNCs and hybridisation takes place through different patterns, including the *attraction* of the home model by host country actors. Concepts of willingness and permissiveness are important here, as well as more focus on the distinction between employers and employees behind indistinct 'home' and 'host' country models. In this perspective, the case of Central Europe[2] is particularly telling.

As defined by Boyer (1998), hybridisation is a third, mid-way situation between diffusion, i.e. transfer of home-country models abroad, and adaptation, i.e. adoption, for the foreign subsidiaries, of the host country pre-existing practices. It is a combination of new productive principles with old routines (p. 54). Boyer's model argues that far from being a residual possibility, hybridisation is the most likely outcome of internationalisation of production, due to a relatively simple probability calculation: successful diffusion requires an excessively high number of favourable conditions.

The idea of hybridisation does not refer to human resource only. It refers to the broader concept of 'productive model', as composed by product policy, production organisation, and employment relations. Against potential criticism of idealisation, Boyer distinguishes from the outset between general principle of the model and actual configurations of it. Still, a productive model is such (and not just a configuration) because it requires internal coherence (complementarity among different elements) and external pertinence. It is the idea of external pertinence that offers the link with institutional analyses and with the idea of socially embedded forms of capitalism. According to such theoretical approach, since the production model depends on the society, the host country will rather not have the competences and industrial relations of the home-country model.

On all three dimensions of the productive model, the host country has effects that can hamper diffusion: local market preferences affect product policy, supplier organisation affects the productive model, and industrial relations affect the company employment relationship. This paper will discuss the third of these components, as the one most affected by intra-organisational conflict due to structural antagonism between labour and capital. On the other side, it is common knowledge that human resource issues are the most difficult productive model component to transfer.

Boyer, as well as some subsequent research, is aware that hybridisation is not just a matter of balance between pressure from the headquarters and local resistance. He argues that it does not simply mean attenuation of the model, but it is also a source of its transformation. He adds that there are different forms of hybridisation. First, he distinguishes between 'functional equivalent' selection and 'invention' of new solutions. Second, he distinguished the level of 'bricolage' with the higher one (and dependant on time) of 'model change'. In all this, he mentions the role of actor strategy to attenuate technological and social determinism. There have been attempts at integrating the hybridisation perspective with micro-political insights (for a

[2] Central Europe is intended in the new geo-political sense, and not in the geographic (i.e. including Romania and excluding the Baltic countries) or historical one (i.e. including Austria and North-Eastern Italy), to mean the eight post-communist EU members located between 'Western' (i.e. the 'old' EU) and 'Eastern' (i.e. post-communist countries still excluded from the EU) Europe.

discussion, see Becker-Ritterspasch 2004). In this paper, we will focus on actors' power and strategy in a more structural fashion.

The ideas of 'invention' and 'model transformation' imply at least in theory the possibility of backward effects. That is, the home country model as guideline will change its content. This is admitted by Boyer: hybridisation can open the way to innovation for the MNC as a whole (p. 48, 53). Nevertheless, these points are not developed further and overall the assumption of diffusion being driven from the home country, and possibly resisted by the host country, continues to prevail. Boyer's chart is very linear: from the principles of production as codified on the basis of previous firm experience, through workers acceptance, rejection or 'trial and error', to the outcome: direct application, failure or hybridisation (p. 28). As a result, it is only host-country actors who would resist diffusion: 'diffusion may be blocked by the opposition of employees, and indeed by opposition from middle- and upper-level supervisors whose interests might be threatened by the implementation of the model' (Boyer 1998, p.32)

Such an assumption may seem justified on the case of Japanese MNCs. Yet one has to remember that FDI by Japanese companies in the 1980s and 1990s had a specific rationale: it was mostly market-seeking, and it also looked for economies of scale in locations where larger production sites where less costly than in Japan (because of land and labour market saturation). It was therefore not primarily efficiency-seeking, as demonstrated by the very low re-import rate of cars into Japan from off-shore subsidiaries. This situation cannot be generalised, and is very different from that of FDI in manufacturing within the enlarged EU, where (with the exception of sectors like food and beverages) market access has become virtually irrelevant, re-export rate approach 90%, and the choice of locations depends primarily on efficiency considerations.

Incidentally, even on the case of 'Japanisation', one could contest the idea that diffusion is driven by the MNC's country of origin. Both sympathetic and critical accounts of Japanisation (e.g. Womack et al. 1990; Oliver and Wilkinson 1992; Elger and Smith 1994) observe that while there is strong variety of productive models within Japan, the keenest promoters of 'Japanese' organisation have often been *non*-Japanese companies, like Ford, Rover or Fiat. By contrast, Japanese factories in California had very 'American' management practices, including low wages, systematic union avoidance, and reliance on female and ethnic minority workers (Milkman 1991). The notorious example of *lean production*, possibly the most representative aspect of Japanese work practices abroad but also a concept that does not exist in Japanese, is in this regard quite telling. In terms of actors, it may therefore be conjectured, that *attraction* (pull) from abroad rather than *diffusion* (push) was the mechanism at work. Overall, research on Japanisation provides many examples of MNCs that *have to adapt*, but it neglects cases where they *want to adapt*.

'Hybridisation at the source': the absence of Germanisation

Interestingly enough, the first and purest example Boyer gives after his definition of hybridisation comes from a post-communist location: the Eisenach Opel factory in Eastern Germany (p.54). In this case the institutions are the same as in Western Germany, but socio-economic history having been different, the company could choose it as location for experimenting *leanest* production, something new for Western Germany and arguably more difficult to introduce in the old *Bundesländer*. This interesting observation raises more questions that are worth considering.

The Eisenach case may be seen as the starting point of a new stream of research looking at German MNCs and their alleged effort to *escape*, rather than diffuse, their original production model (*Modell Flucht*), especially with regard to employment relations (Ferner and Varul 2000; Lane 2000; Tüselmann, McDonald and Heise 2003; Pries 2003). The case of German companies is indeed a particular one, because of the long-lasting *Standortdebatte* on location competitiveness, but it may show with more clarity processes that can take place in other MNCs. While there is still no systematic, consistent evidence of macro-level deliberate 'running away', and indeed within the automotive sector German employment is actually increasing, in many German companies this is the dominant tone of industrial relations discourse, as put by an Opel manager: 'Out of Germany or out of Business!' (Der Spiegel, 24/4/2004).

Tüselmann, Mc Donald and Heise, while detecting some country-of-origin effect in collective industrial relations and the emergence of a new 'German style' as 'pluralistic HRM', interestingly find that 'German MNCs, in an Anglo-Saxon context, tend to be at the forefront in adopting what is frequently assumed to constitute the best practice element of the Anglo-Saxon approach' (p. 339). Pries finds that in the BMW Tuscaloosa (USA) plant 'the decision making process (…) is much faster than in production sites in Germany, and workers participation in process optimisation is much higher' (Pries 2003, p.94). In the outcome, foreign BMW plants were the frontrunners of *Japanisation* within the MNC: a home-country effect that has little to do with institutions of origin.

Dörrenbächer (2002) has pointed clearly to the shortcomings of institutionalist approaches to MNCs diffusion and hybridisation, based on the concept of business systems (Whitley 1999). The focus on home country model 'pertinence' overestimates the original coherence and underestimates host-country effects. Notably, there is a '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' (p. 3). In some cases, what happens in the foreign subsidiaries is not the more or less mediated outcome of home country models transfer, but *deliberate* innovation meant to affect the whole group, like in the Audi case in Hungary (Kessel and Dörr 1998). This reverts ethnocentric views of MNCs: the home country is not necessarily the 'model', and the host country is not necessarily a recipient.

Dickmann (2003) has noticed an insufficient consideration of the issue of *willingness* in the transfer of German HRM abroad. On one side, he detects a number of factors influencing transfer desirability: administrative heritage, ethical merit of standardisation, host governments, global business strategy, production integration, belief in home superiority, avoidance of efforts duplication. He also notices, however, drawing on previous works by Guest and Hoque (1996), that transfer may be low due to firms consciously using differences in business systems to pursue distinct local strategies, enabling a higher flexibility overall. As a matter of fact, Dickmann's own findings on German MNCs in UK and Spain show that five out of six companies had an international HR strategy, but none of them wanted to transfer the German industrial relations approach. The increase in managerial prerogatives is seen by them as outweighing the advantages of codetermination. As a manager puts it: "we do not tie a millstone around our necks" (Dickmann 2003, p.274). Yet the implications of such unwillingness to transfer become most apparent in the case of Central Europe.

Dörrenbächer (2002) admits that German MNCs often *declare* the transfer of their 'German' employment practices, but this is usually not the reality. And what

research shows in many cases is not just a modification, attenuation or adaptation of the original model, but a *radical* and *deliberate* departure from it.

Two aspects are widely considered as pillars of the German co-determination system. First, a division among channels of employee representation, in order to keep wage determination (arguably the most disputed issue) *outside* the factory (sector-level, union-led collective bargaining) and day-to-day co-operation *inside* the factory (works councils). Second, a long-term orientation, which translates in employment security and *stakeholder* voice, in exchange of reliability, productivity, human capital development. Behind the specific organisation solutions, one can argue that if these two pillars are deliberately rejected, it makes little sense to speak of diffusion or even hybridisation in Boyer's sense: the *push* element is not present and there is little 'Germanness' left.

Research on German investment in Hungary by Fichter and Dörrenbächer (Fichter et al 2004; Dörrenbächer 2002) et al. shows exactly this. Works councils are allowed, but not consulted, and sector-level collective bargaining not only does not apply, but its possibility is seen with repulsion. Avoidance of, or passivity in, employers' associations is noticeable. Employment practices depart from German standards even more, with the adoption of trial and error employee selection, use of leased workers, frequent unilateral overtime. German firms in Hungary adopt individual paternalistic communication strategy instead of indirect ones, rely on on-the-job training more than on the vocational one, introduce innovative forms of teamwork, do not join, and even actively undermine, employer associations, and keep employee representatives at a distance. Put otherwise, they seem more *American* than *German* companies!

Hybridisation, if it happens at all, is then not the balance between home country pressures and host country resistance, but the outcome of the firm selective transfer strategy. The authors call it 'hybridisation at the source' in contrast with 'exogenous hybridisation' (Dörrenbächer 2003). The contrast between a very high technological transfer (with some Hungarian workplaces overtaking the German) and a very limited IR transfer comes out in a very striking way, and it raises very important questions about both the state of the German model and the coherence of productive and business models, within which IR should develop alongside technology and production.

Such findings suggest that the home-country model is changing its meaning, at least in Germany where the whole economic model is under discussion (for a review: Hoffmann 2004). As a matter of fact, on the telling issue of performance-related-pay in Germany there is no difference between foreign and nationally-owned companies, but there is an important effect of internationalisation regardless of the property (Kurdelbusch 2002): the same country is equally affected by subsidiaries abroad as it is from foreign investors. German companies 'pull' from abroad as much as foreign companies can 'push'. The lengthening of working time at Siemens (one of the fastest internationalising German companies) in Germany under the pressure of relocation threats (Financial Times, 30 July 2004), that has come as a shock for German industrial relations soon after the EU enlargement, has only been a rather brutal form of such 'pulling'.

Towards a 'pull' hybridisation theory: the case of Central Europe

The idea of hybridisation as a 'pull', or 'backward' rather than 'push', or 'forward', process requires further theoretical revisions. First, it brings the focus to the process of 'reverse diffusion of practices' detected and analysed by Edwards

(1998). It shows that such reverse diffusion does not necessarily depend on the relative power of the subsidiary, as it may actually be planned by the headquarters. It does seem, however, to be influenced by what Edwards calls hegemony effects, whereby certain models (currently, the Anglo-Saxon ones) enjoy higher legitimacy than others. Second, it needs a better understanding of 'attraction' processes, whereby the home-country model diffusion is requested instead of resisted by host-country actors. Third, it moves from an institutionalist paradigm of coherent models to a more actor-centred paradigm focussed on strategies and power of different actors *within* MNCs and business systems.

The case of FDI into Central Europe has often been seen through the lens of 'transition', whereby western models would replace the previous, socialist ones. Such lens is hardly adequate today, not only because almost a generation has passed between the fall of communism and the entry into the EU. There is an increasing amount of evidence showing that CE environments may be more conducive for innovation by MNCs than the home country locations. In this process, they may even appear to be 'more western than the West' (Meardi 2000).

Bluhm's (2001, 2003) research on German companies in Poland converges with Fichter, Dörrenbächer et al. 'Hungarian' findings. Althoush some companies transfer parts of the German model, large German MNCs do not promote sector-level regulations, but they oppose them and deliberately undermine sector-level employer organisations, which should be a pillar of the 'German model'. There is in addition the well-known distinction between large and small German companies, the latter being particularly opposed to workforce representation but also the former not being interested in it as they should according to their 'model'. German operations in Poland are therefore oriented towards individual-flexible models of labour relations that have little in common with German model representations. Domsch, Lieberum and Strasse (1999) confirm that German companies in Poland have the same recruitment strategies and the same personnel development policies as the Polish ones; local actors do distinguish between Poles and Germans, but more on the basis of stereotypes than on actual differences.

Our survey on German and US investors in the Polish automotive sector confirms the departure of German companies from the classic German model: paradoxically, trade union presence is more widespread in US companies (77%) than in German ones (35%).[3] In fact, the aggregate figures are strongly distorted by other factors. Controlling for size and mode of entry, the findings show no significant difference between US and German investors, which is itself a challenge to the enduring meaningfulness of home country models.

Yet it is not only a matter of German companies. French Danone in Poland experimented with non-union employee representation bodies (2000). Interestingly, management presented them as a traditional Danone practice in France, while such bodies are clearly unknown in the home country. The gap between declared and actual hybridisation could hardly be larger. Durand (1997) gives further examples of French companies in CE where local managers react more quickly to innovation than the home-country ones.

It is remarkable, for the hypothesis of CE as crucial for broader change, that innovations in component supplier networks' organisation often start in the

[3] The sample comes from the 2003 database of the governmental Polish Agency for Foreign Investment, that includes 20 German and 19 US large investors (that is, with more than 1mln $ investment) in the automotive component sector. The phone-based survey of all 39 US and German investors had a response rate of 77% (30 companies, 17 German and 13 US).

geographical periphery, like Mexico for VW (Pries 1999), South Africa for BMW (Pries 2003) or South America and Southern Italy for Fiat (Balcet and Enrietti 1999; Pulignano 2002). Within CE, suppliers' networks become sometimes 'frontrunner networks' in terms of organisational innovation (Ruigrok and van Tulder 1999).

It is important to stress that the attractiveness of the periphery does not simply consist of low wages, as would have argued the traditional New International Division of Labour theory. It is a broader construct of employee relations, flexibility, organisational fluidity, skills and work attitudes. As recent studies show, since the second half of the Nineties CE has attracted MNCs higher value productions, often not dissimilar in its structure from that of the home countries and already at the level of Southern Europe (Radosevic, Varblane and Mickiewicz 2003; Baldone, Sdogati and Taioli 2002). The most important sectors for FDI in the region are not the traditional low-skilled-labour-intensive ones like textile (which are actually going further East), but either the ones important for market access (like food and beverages) or the technologically advanced ones (motor vehicles, chemicals, electronics). Some companies, like Peugeot and Toyota in the Czech Republic, locate in the region also technological centres for R&D, and General Electrics is locating all of its European customer services. The fragmentary evidence available shows that as long as – often pushed by wage increases – they have done the necessary technological investments, MNCs usually obtain in the region similar hourly work productivity – and therefore often higher monthly productivity thanks to longer working time.

Therefore, it seems that most hybridisation research has neglected the raising power of multinational companies, especially in diverse free trade areas like the enlarged EU. A recent quite pure example is Siemens' new form of organisation, 'Siemens Management System', whereby all company functions, from pure research to the simplest operations, should be capable of worldwide relocation in the name of 'global value creation'. Interestingly, Siemens has decided to locate in Hungary new important operations in spite of the failure of a previous more traditional transfer into the country (Der Spiegel, 26/4/2004). The willingness to transfer practices may still occur in many cases, due to control, integration and quality standardisation constraints, but there are no longer reasons to take it as the natural state of things.

Behind MNC power there are nevertheless other actors who must be included in the picture. Even when MNCs want to *diversify* productive systems instead of *diffusing* the original one, the factors increasing transfer feasibility still operate: coercive forces (laws, institutions, organisations) and endogenous forces like channels of influence (Ferner and Edwards 1995). Only, such channels may operate in the opposite direction. Both institutions and employee representatives may make use of 'fairness' as well as 'productive reputation' arguments to *attract* home-country practices also when the MNC does not intend to diffuse them. The European Works Councils, as networks if not as deliberative bodies, are potentially a privileged channel for such bottom-up *pull* attraction and even upwards 'coercive comparisons' (Meardi 2004).

A final and particularly ambiguous actor to be considered is local management. Local management may reject the diffusion of the model when employees actually demand it. In-progress research shows that in the case of German investors who do transfer parts of their HR or IR practices, local managers may be disappointed by it as it increases their constraints from employee representatives or reduces their status. But it can also be a keen executor of newest practices. In any

case, whether by employees or managers, resistance is not on the grounds of 'old routines' as assumed by hybridisation theory.

To conclude, Boyer's model (table 1) does not seem well suited to predict developments in Central Europe. According to the model, German and Italian companies should fall in the North-West cell, of pure *transplantation* of the firm original model. As the case studies in the next paragraph will show more clearly, and the previous discussion has already suggested, this is generally not the case at all.

Table 1 - Nature and likelihood of hybridisation (Boyer 1998: 38):

Host space **Firm's model**	**Weak and heterogeneous**	**Rather strong, compatible with some diversity**	**Strongly coherent and homogeneous**
Precisely defined principles and routines	*Transplantation* [expected result of MNCs in CE]	*Uncertainty*	*Conflict*
Clear principles but some routine flexibility	*Partial hybridisation*	*Hybridisation*	*Hybridisation as innovation*
Neither principles nor routines are strongly implemented	*Incoherence*	*New trajectory*	*Adaptation*

In order to account for Central Europe, it is necessary to elaborate further the firm's model definition, allowing for a fourth possibility of company power and willingness to diversify the model across countries and sites. In addition, on the host-country side, weakness and strength should not be intended only with reference to *resistance* to transfer, but also as power to attract or innovate. Table 2 is an initial configuration of a revised model, which tries to avoid some of the mechanical, deterministic aspects of Boyer's. Such a revised model, which in turn will need further elaboration especially on the determinants of actors' power and strategies, will be used in the further discussion of case studies from Central Europe.

Table 2 - Revised model to take account of efficiency-seeking Central Europe:

Host space **Firm's model**	**Weak and heterogeneous**	**Rather strong, compatible with some diversity**	**Strongly coherent and homogeneous**
Precisely defined principles and routines	*Transplantation*	*Uncertainty*	*Conflict*
Clear principles but some routine flexibility	*Partial hybridisation*	*Hybridisation*	*Hybridisation as innovation*
Neither principles nor routines are strongly implemented	*Incoherence*	*New trajectory*	*Adaptation*
Power and willingness to diversify	*'Pull' hybridisation* *Pressure on local model (SK, to an extent H and PL)*	*Isolation* *Pull-push hybridisation (H and PL in the future?)*	*Externally-contested hybridisation (SLO)*

2. FDI and EU enlargement

Before assessing the forms of hybridisation in MNCs in an enlarged Europe, it is necessary to present the macro context of EU enlargement in which they take place. The accession to the EU has direct implications for employment relations in MNCs: by dismantling some important movement barriers and affecting the motivations of FDI, it makes FDI politically much more relevant.

Indeed, the experience of previous enlargements (1973, 1981-86, 1995) did not show a turning point in FDI flows around the date of the enlargement, but rather a more long-term development of economic integration. This is particularly true of the

enlargement of 1995 which coincided with a slowing down of FDI from the EU. Those rounds of enlargement concerned however countries already well integrated in the European economy. Central Europe is in many regards different: first of all, it includes 'transition' countries which have been experiencing dramatic economic restructuring; second, it is geographically more central and economically more different, which increases the scope for international reorganisation of production; finally, the last enlargement takes place in a period when FDI and MNCs are much more macroscopic phenomena than they were in the 1970s, 1980s and even mid-1990s.

Central Europe has already been in the last few years one of the most attractive regions for FDI inflows, and indeed the only region in the world where FDI inflows have not decreased in the two years after 9/11, at least if one does not consider China as a region but only as a part of East Asia (UNCTAD 2003). In 2003, the A.T. Kearney consultancy firm put Poland in the first place among European countries in its FDI Confidence Index (*Financial Times*, 18/9/2003). One could therefore be tempted to define the region as open to FDI regardless of the EU. EU accession as such does not directly affect foreign investment regulations in a significant manner, but rather trade, with the elimination of the last tariff and non-tariff barriers. Yet it may affect it in three different indirect ways: first, negatively, by reducing the market-access motivation; second, positively, by favouring international reorganisation of production; third, again positively, as stabilisation guarantee and therefore reduction of country-associated risk. Such effects were already clear to German observers in the mid 1990s:

> Accession of Eastern Europe to the EU, which Germany cannot resist because it must be vitally interested in political stability behind its eastern borders, will remove the last remaining uncertainties for Western investors, most of whom will be German. It will also make construction of a social dimension of the European Internal Market, that might protect German labour markets from the deregulating effects of internationalisation, even more difficult than it already is. (Streeck 1997: 50)

The forecasts for after the enlargement differ. Many are expecting dramatically increased inflows in the year after the enlargement, but most analysts are more cautious. The Vienna Institute for International Economic Studies even suggests that FDI flows will be modest, as privatisation has been practically completed and rather than big new investment projects, FDI flows from SMEs (especially in the border regions) will accelerate. The European Commission, in its widely debated, reassuring expert report on EU enlargement effects for the labour market (Boeri and Brücker 2000), even argued for a decline in new projects from the 'old' member states because of the elimination of market access motivations. Interestingly enough, however, once the enlargement has been achieved, the same EC started to see re-localisations as a positive development to be expected:

> Enlargement too is important in this context. It offers European industry important opportunities in terms of investment, skills and new markets, but these can only be seized if the process of restructuring is not blocked by artificial barriers. Moreover, enlargement may help in some cases to maintain production in the EU, which might otherwise have moved to Asia. It will also boost competitiveness by allowing businesses to re-organise their activities between existing and new Member States, so that they benefit from the competitiveness strengths and advantages of different parts of the Union (EC 2004)

The general expectations are indicated by a survey of 87 leading FDI experts by UNCTAD (UNCTAD-DITE 2004). Most respondents were optimistic about the region's FDI prospects for both the short term (71%) and medium term (77%). These figures were slightly below the world average, but above those for developed

countries. In the global ranking, Poland and the Czech Republic, joint fifth, are the first European countries (the first four places are occupied by China, India, USA and Thailand. The UK, ninth, is the only other EU country in the top-ten, again not a typical representative of the European social model.

Recent figures do suggest an increase in FDI inflows into CE in 2004 (e.g. PAIIZ 2004), but this may be related to the economic recovery in the largest country in the region, Poland, and not to the enlargement. But it is not the 1st of May 2004 as such which matters, but the overall, long-term process of European integration: since 2000 foreign investors mentioned the perspective of EU accession as one of the main motivations for investing in the candidate countries instead of the other eastern European ones (EBRD 2000).

The most important point for this paper is then another: whatever the aggregate effect on FDI stock, EU enlargement is changing its *nature*. All figures (e.g. Chiarlone 2002, KSH 2002, 2003 and 2004) show a marked structural movement of FDI from low added value to high added value production, and above all a reversal of the internal trade balance, as it will be discussed in section 4. This proves a change from market-access to efficiency motivations, with important consequences for employment, industrial relations and the social dumping issue.

The importance of unit labour costs, embracing considerations of labour quality and productivity as well as cost, rather than low labour costs per se is reflected in the diffusion of a wide range of 'modern' managerial techniques in many MNCs, as in the Hungarian case reviewed by Ladó (2001). In CEE increases in productivity, of which MNCs are the main source (Barrer and Holland 2000) have exerted a downward pressure on unit labour costs. In aggregate these are about 20% lower than in the old member states (EC 2002). In Hungary, unit labour costs have decreased by 8.8% (if deflated by the Consumer Prices Index) or 6.2% (if deflated by the Production Prices Index) between 1992 and 2000 (KSH 2000). In the other countries the trend has been similar, although productivity has increased more slowly (Galgóczi 2003): GDP has increased faster than aggregate employee compensation (reflecting reduced levels of employment and stagnation of real wages). Amongst MNCs, the decline of unit labour costs is in general much faster than in the aggregate economy, which suffers, for instance, from the enduring uncompetitiveness of the agriculture sector.

3. A Greenfield case of hybridisation: from 'ideal' home model to Japanese hybrid

The build up of the managerial version of the 'ideal home' model in Hungary

The German Tool-Manufacturing Company (GC) is a family owned company. The company became one of the world's leading producers of sensors. The business strategy in this product niche is to have at the same time a high level in R&D concentrating in a number of key products and a low-cost, high-quality and efficient production. In the 1980s, the German plant employed around 800 employees, among them 600 production workers.

The company arrived to a critical juncture at the late eighties. It had to decide – taking into account the high cost level of German production – whether it would adapt to the new challenges of the industry sustaining its wide product portfolio by adding a low-cost manufacturing base, or focus only on the technologically advanced and low-volume sub-segments of the sensor product market, where it could avoid price competition. The decision was to maintain the dual strategy by searching for a low-cost production site in 1988.

The new low-cost subsidiary (HS) was located in a mid-size industrial city in West-Hungary. The main motivation for choosing Hungary for the relocation was to maintain close logistic links with the new subsidiary and to be able to run a flexible production network between the mother company and the new site. Additionally, a personal factor also played a role. The engineering director, who managed the set-up of the new subsidiary, had been born in Hungary and personally knew the person who was entrusted to be the director of the subsidiary. The Hungarian engineer, who was hired to run the subsidiary, was the head of the R&D department of a major Hungarian automotive supplier company.

GC decided to build a greenfield site and to have a trial and error development path for the new plant. The Hungarian subsidiary (HS, in the followings) begun its manufacturing with an old machine, which was relocated from the German plant in Spring 1989. The very reason for relocating this machine was that it was running in a one-shift operation in Germany due to the works council's opposition to introducing a two-shift working time scheme. In Hungary, the machine could run on two shifts. Moreover, having arrived to Hungary, the employees, who were extremely committed to show their abilities, fixed the machine and secured a continuous flow of production. This early signs of commitment and ability certainly were a key early positive experience for top managers at GC. The second machine put into working at HS was a high-tech, state-of-the-art pick-and-place machine, which represented a new technology never used beforehand by the German model company. These first two machines already represented the dual development track on which HS would develop in the future. The dual development track means for HS a parallel development to be an extended workbench based on relocation of work intensive, low -tech activities, in one hand; and to be an innovative high-tech centre, based on developing new technologies and manufacturing activities not done beforehand in Germany.

In the subsequent years the development of HS continued through two major sources of production assignments. Firstly, the reintegration into in-house production of manufacturing some of those parts and components, which were supplied by smaller firms based in Germany. A state-of-the-art mechanized shop with lathe and turning and various other types of machines was set up. The reintegration of part manufacturing into in-house production deepened the manufacturing depth of GC, which in the past mostly specialised itself on designing and assembling sensors. The reintegration of manufacturing into in-house production increased the autonomy and customer-oriented flexibility of the company, but also, due to the low cost manufacturing, allowed further cost cutting. Additionally, HS was assigned to host new high-tech manufacturing activities never done beforehand in Germany, like "SMD pick and place" technology, "chip on board" technology. These investments represented a technological leapfrog for GC and opened a new development route in developing state of art sensors and to be a market leader in manufacturing micro inductive sensors.

Secondly, there has been a continuous stream of relocation of various assembly activities from Germany in a step-by-step manner. Following the opening of the Hungarian plant, the company initiated an incremental relocation strategy between 1989 and 1993. In this period, the relocation had a kind of 'by chance' character: as opportunity or necessity arose, production was enlarged. Single machines and smaller units were relocated, mostly in areas of pre-assembly. At the end of this period, HS employed 77 persons. 1993 marked the beginning of a new phase. Between 1993 and 1994 a major relocation took place by relocating the assembly of sensors. At the end of 1994 employment at HS had risen to 190.

In 1996, the company systematically re-designed the division of labour within the firm. It was decided to concentrate all mass-volume production in Hungary. HS was assigned to provide about two thirds of all manufacturing activities of the company. Due to the expansion of production, employment rose to some 400 at HS. In the new work-division, the German plant retained a relatively small manufacturing responsibility as it remained responsible for the assembly of low volume customer specific sensors. In Germany, the number of production employees has been reduced to approximately 100. On the other hand, the role of headquarters and R&D functions of the German site was reinforced. Recent years saw the increase of R&D assignments, marketing, purchase and supply chain organisation tasks at HS.

In terms of employment, the Germany-based headquarters are still the biggest, employing 620 employees. Due to the reinforcement of the knowledge centre, the German site regained the employment losses that it suffered due to the relocation of production to Hungary. The difference is that now majority of employees are highly skilled white-collar employees working in R&D or managing the worldwide activities of the firm.[4]

The strategy adopted by GC in the late 1980s/early 1990s proved to be very successful. On one hand, the reinforcement of the knowledge centre and R&D in headquarters based in Germany provided the edge for GC to be competitive as far as R&D concerned. On the other hand the "renewed manufacturing" arm of GC in Hungary with new technologies and new work organization enabled GC to compete on price on the mass-volume segment of the sensor product market. The parallel building up the two sites allowed GC to successfully maintain its leading position in the mid-and upper price segment of sensors.

HS was conceived to offer a low-cost production platform for GC. HS from the beginning offered cost-cutting and efficient use of machinery compared to the German location and also enabled – building on the high quality of local human resources and industrial experiences – to develop new manufacturing capacities never done in Germany by GC. The company also made use the development of manufacturing techniques and work organization theories and it rejuvenated the production process and logistics according to what is thought to be state-of-the-art techniques.

In short, it was a timely and targeted case of international reorganisation and diversification.

Transfer of production

In the cases of relocation of production there was a virtual one-to-one transfer of the production organization. In case of virtual one-to-one transfer, the Hungarian employees were trained in Germany and German engineers were posted temporarily to Hungary to help to set up the machinery and the launch of production. Within the framework of virtual transfer, certain modifications of the production process were introduced due to technological advances, higher automatisation levels in Hungary compared to the German plant, or due to different physical layout of the Hungarian plant. These modifications, however, were designed by the engineering department of GC. It was given the chance to the Hungarian colleagues to give an input to the production planning process, but the Hungarian input has been rather limited to concerns of ergonomics of production. The tightness of the control is shown by the

[4] It should be noted that although this is a frequent development, it is not always the case: some western MNCs are relocating to the new member states also administrative, customer relations and R&D activities.

fact that the Hungarian side had to inform about any process development suggestion the German partners in order to get permission to the modification. Having given the permission, the German controlling partner recalculated the norm, to which the Hungarian partner should adjust. The introduction of SAP tightened the control of GC over HS even further. In case of assembly operations of newly developed sensors, the practice of process development is similar to the virtual one-to one transfer. The planning and first trial run of the production process took place in Germany. Having optimised the production, a few Hungarian employees learnt the production process there. Then the line was transferred to Hungary.

HRM and employment terms and conditions

The Hungarian management enjoys autonomy in shaping human resource policies of the Hungarian plant. Nonetheless, the hand of the Hungarian management is tied by production, quality and cost targets set by the central headquarters. Overall, HS is the manufacturing arm of GC. Within this context, it was a policy to ensure decent wages and good working conditions by local standard at HS. The Hungarian director (HD) exercises a stiff control over HS. It has a paternalistic style of personal policy, placing emphasis on loyalty, commitment, ensuring good conditions of work and fair compensation.

In general, HS is considered to be a high-wage company in the local context and it has a good reputation of being a company that cares about its employees. Due to the relatively higher wage levels to the local environment, BH has been able to employ the cream of the local labour market and have a better-trained workforce than the mother company had in Germany. The higher skill level of employees in production areas allowed a highly quality-oriented work culture and job flexibility. Beyond relatively good wages, the company offers high-quality work conditions to employees, which are at the same level of, or even surpass, the level of work conditions at the German plant.

The wage system for production workers is supporting multi-tasking and multi-skilling of employees. The hourly wage for production employees depends on the employability matrix of each employee: it depends solely on how many jobs and what quality of jobs one could perform, regardless of seniority. On top of the fix basic wage, there is a monthly contingent wage of around 20% of a monthly salary. The actual size of the contingent wage is based on monthly evaluations of quality and norm performance of each employee. Additionally, there is a good-health benefit, which rewards those employees who have not been on sickness leave during the month before. Additionally, the salary is accompanied with a wide-range of fringe benefits.

Training is a key component of securing competitiveness of the firm and helping employee development. On-the-job training has a key importance, but there are possibilities for re-training and learning to facilitate organizational change and organizational learning. The company supports two vocational schools. Also there are financial schemes to support higher education for employees.

The ‘adaptation’ of company-culture in HS

The adaptation of the family style of the company culture was facilitated by the fact that HD has a very similar, although possibly even more paternalistic conception of company culture than the German owner-manager, who runs the mother company. Thus, HD easily adapted to the ’family’ style of GC. For him, the commitment and personal loyalty to the firm and to production goals is a key in

competitiveness of the company. A company needs full personalities and their all capacities. He himself thinks that there should be an open door policy, to have face-to-face contact to employees and to keep close contact to them. The Hungarian workforce, according to HD is innovative and flexible, and thus it could perform complex jobs and multi-tasking if the conditions and the right management is provided. According to him, the most difficult for Hungarian employees to give up their attitude inherited from the socialist past, in which they see in management an enemy. The most difficult management task is to change their identity to introduce loyalty to the company: workers should stop thinking how to avoid work.

HD is a work-centred person who exercises tight personal control over every facets of the life in HS, and so is seen by other interview partners. Moreover, he has been interested in the organizational studies literature and his strong character enables him to put into practice his wide knowledge. Nonetheless, whatever model was chosen, its success depends on the coherence of the management to be able to apply coherently and tightly an organizational principle. The personnel commitment of HD to GC's goals is certainly a major factor in the development of HS. As one German interview partner put it, using a case of Japanisation of production, it was a hard job to get the acceptance of HD to the re-organization plan, but once he accepted the logic of re-organization and saw the value of the changes, he stood completely on the side of the re-organization, taking an extraordinary role in making the Hungarian employees to understand and carry out the changes.

Management is proud of having a distinctive image of HS, which involves the following features 1) innovative company with innovative employees, 2) company's concern with employee social welfare, 3) work humanisation 4) training and permanent learning, and finally, 5) appreciations of the HR policies by the employees.

Instead of industrial relations: employee relations

As far as industrial relations concerned, GC and HS seem to be at opposing end-points of a continuum. HS is unilaterally run by its management and is constrained neither by works council, nor by a sector collective agreement. GC is a typical German company with an influential works council and a sector collective agreements limiting managerial prerogatives over the wage system. In several interviews done with managers at the headquarters in Germany, it was obvious, that inflexibilities imposed by industrial relations actors are seen rather as a problem than an asset. Nonetheless, since the 1990s the danger of relocation was an essential bargaining chip in the hand of the management for reaching compromises in negotiations with the local works council. Moreover, the stream of relocations put the works council on a defensive position in representing primarily a declining segment of the workforce, while it was unable to reinforce its links to the growing number of white collar employees.

During the transfer process to HS there has not been any effort made by GC to voluntarily create a copy of the works council model operating in Germany in HS.[5] On the contrary, German engineers who directed the set up of production at HS expressed their uneasiness concerning the tight control of the works council provided by the German legislation and made clear that they did not want to have such a limit. These engineers and technical experts sole concern was to ensure the flow of high quality and efficient production and to solve technical and production process related

[5] Until 1992, there was no legislation on works councils in Hungary. The 1992 amendment of the Labour Code institutionalised a works council model with information and consultation rights.

problems. In this sense, they regarded the works council as an obstacle to flexibility, efficience and best practice development. HD seems to share the opinion of German managers.

HS as a greenfield plant has not "inherited" a union with the workforce. Management built up a paternalistic and employee high-involvement enterprise culture, which does not offer space for autonomous workers' representation. On the other hand, there has not been any attempt to set up a local union organization or any initiative on behalf of employees to have works council. HS is not covered by any sector or regional collective agreement.

Japanisation of production

The unilaterally management-run nature of the company allowed a quick and seamless re-organisation of production according to Japanese production principles in the late 1990s, following the strategic reorganisation in 1996. Reorganisation was been shaped by the engineering director, who was recruited from an automotive supplier company, and had direct experiences concerning the highly efficient and quality oriented production techniques of Japanese car-manufacturing companies. It was assisted by specialized external consultant firms, especially in the planning of teamwork and the Kanban system in 1998, the revamping of IT network in 2001 and more recently the re-shaping of the supplier network. Hiring of new managers in various key positions of the company, like at quality control or purchasing department allowed the company to abandon traditional practices and employ state-of-the-art practices in these areas. 1997 saw the introduction of SAP, that increased headquarters' control over production flow and quality.

In 1997 a wholesale model of teamwork and Kanban system was introduced in HS. Following the reorganization, assembly work is conducted in teams of 10 to 25 people. All teams are composed of core of skilled workers and a larger number of unskilled workers. Each team is responsible for a certain product area. Team autonomy extends to: (1) who is performing what task in the team, (2) how to perform single tasks and in which order to perform them, (3) which order will be done next following optimization criteria, (4) the search and elimination of waste and mistakes, (5) continuous improvement processes. Team leaders are responsible for the organization of work, for quality issues, as well as for internal communication and for external communication with other teams. As a rule, team leader tasks only cover some of the working time, and they also do some assembly work. The whole coordination of the teams is done through a Kanban-system that relies on self-regulation by the strict installation of company internal client-supplier relations. One team is the client and/or supplier of another group. Additionally, the company has employed consulting firms to devise an appropriate structure in several functional areas ranging from marketing to purchase.

The underpinning factors of development of BH

HS has been a rare case of Hungarian subsidiary's upgrade, a process that usually meets a number of obstacles (Dörrenbächer and Gammelgaard 2004). There were many 'objective' factors, which have predisposed the potential development route. The considerable lower labour cost and lax labour regulation offered considerable cost cutting advantages to GC. The presence of a well-trained and skilled local workforce with considerable experience in manufacturing made the set up of a greenfield plant less risky. A key feature of HS that it hosts a number of new technologies and work processes, which were beforehand supplied to GC. Thus HS

represents a case where re-integration of supply took place in order to increase flexibility and quality control using a low cost production platform.

GC pursued a dual track investment strategy. According to the engineering director, placing into HS the high tech mass production and leaving in Germany the work intensive customer-commanded products, enabled the company to '*exploit machines and not employees*'. Namely, the longer Hungarian working time and larger availability of shift-work allowed a more intensive exploitation of machinery. This notion fitted into the paternalistic notion of top-management of GC, which did not want to have a low cost "sweat-shop", but wanted "*to build up the same qualified work environment (Arbeitsumwelt) of the business as it is here in Germany. No differences, no first-class and second-class workforce*".

A second important factor lies in the good personal and trust relationship between engineering director and HD. The engineering director also recognized the potential of local innovative capacity. His point on the generally good education background of Hungarian engineers were supported by other interview partners also, who stressed that the Hungarian education system provided them with a very useful general knowledge base and high level expertise in various field, like software development, or machine building. Consequently, they have sometimes even more innovative/flexible approach the engineers than their German colleagues.

GC invested also into high-quality factory building, provided good working conditions, and good wages in the local context. These policies facilitated the development of human resource policies, which fit with Hungarian management's orientations. In this sense, a broad coincidence between the traditions of GC and the personal culture of HD facilitated the development of a corporate culture, work ethic and personal commitment similar to the German. This allowed to copy some of the key characteristics of the GC practices, like family style, high involvement, –high-quality approach. These characteristics were underpinned by an enormous effort by the Hungarian top-management to employ a clear and homogenous personnel policy and ensure a high wage level in the local context, in order to encourage the acceptance of work reorganization and flexibilisation.

Nonetheless, the lack of independent social control over management, in the form of works council or trade union, also underlines that these human resource policies are employed on the terms of management and their major function is to ensure untroubled flow of production and flexible working practices. This is visible for instance in contingent pay including a sickness absence assessment. Employees in HS are lacking independent channels of influence over managerial policies, which is an important difference compared to Germany. They are more dependent on the benevolence and goodwill of their managers than those of employed in Germany.

4. Brownfield hybridisation: the Fiat case in Poland

Fiat entry and development in Poland

The previous case is in some regards specific of 'greenfield' situations, where the investor enjoys a larger degree of freedom than average in shaping employment practices. This section will present an example in the opposite situation: large, brownfield investment in a highly unionised site. It will show the generalisability of our perspective to hybridisation: although through different routes and upon more conditions, similar unexpected forms of hybridisation occur. The example is taken from in-depth research on Italian investors in Poland, carried out in 1995-99 (Meardi 2000) and followed by later updates. The specific case discussed here is the car-maker

Fiat, a company rooted in a strong specific production model in Italy, although not representative of the whole of Italian manufacturing. Fiat has been characterised by co-operative links with political powers, Fordism (in the period between the 1950s and the 1970s), and adversarial but also concessive industrial relations.

Fiat was unique among western car-makers for its long-standing involvement in production in communist countries. The huge Avtovaz factory in Togliattigrad, USSR, opened in 1966, has been defined as the purest, 'carbon-copy' introduction of Fordist principles into a communist country (Chanaron 1998), but Fiat has also been present in Poland, Romania and Yugoslavia since the 1970s.

Fiat did not therefore 'enter' Poland after 1989, but was already there, through strict co-operation with the two local car-making state-owned companies, FSO and FSM. With FSM, Fiat had opened a new assembly factory in the 'archetypal socialist town' (Szczepański 1996) of Tychy, Silesia, in the 1970s. The decision of using Tychy as the world productive platform for the smallest model *Cinquecento* had been taken in the late 1980s. The fall of communism required a change of strategy, with disengagement from FSO and take-over of FSM (with its two main factories, Tychy and Bielsko-Biała, and a number of smaller ones which were to be sold), which occurred in 1992.

In spite of the apparently pure transfer of Fordist practices, production in FSM was, before the entry of Fiat, also characterised by a number of state-socialism specificities, which have been defined through the oxymoron of 'arhythmic Taylorism' (Andreff 1993: 244). One extreme example of it was the company practice of asking the help of the army to increase labour supply to face increases in production. Such departure from Fordism did not avoid worker unrest (Solidarity was very active in the 1980s, initially led by technical workers and then increasingly by manual workers) but did impede high quality: in the 1980s, when the Polish factories produced the obsolete 126 model (the icon of Polish socialist motorisation), only 10% of the production was suitable for export to the western markets. After 1992, in a few years, Fiat Auto Poland achieved world-level standards and the production was upgraded to subsequent models, *Seicento* and *Panda*. 126's production was definitively stopped in 2000.

Industrial relations: a range of models

HRM at Fiat is both strategic (Camuffo and Volpato 1998), with traditionally HR managers at the very top of the managerial structure, and ethnocentric, with a high use of expatriates. When starting its internationalisation policy in the 1990s (after a history of concentration on the Italian market) Fiat declared to have only 'one' model. This section will however contest this point, which could be also done by looking at other Fiat investments abroad, in Latin America or India (Pimenta 1996; Cardoso 2003; Atzeni 2001). Fiat's complexity is in fact such to have given birth to a new sociological field within Italy, the 'sociology of Fiat' (Bonazzi 2000).

Instead of representing one 'model' Fiat has historically developed a number of different models: Valletta's (authoritarian) in the 1960s, Agnelli's concessive and political in the 1970s, high automation in the 1980s and the participative 'integrated factory' in the 1990s (Camuffo and Volpato 1998; Pulignano 2003). The interesting point for this paper is that the newest, integrated model has not been developed primarily in the traditional sites of Turin and North-West Italy, but in the greenfield site built in 1993 in Melfi in Southern Italy (Carrieri 1993; Rieser 1997; Pulignano 2003), which is an extreme case of reversal of the relationship between core and periphery. The Melfi factory, unique case in the relatively centralised Italian industrial

relations, was created as a separate economic entity (Sata instead of Fiat) with a different collective agreement and a young workforce without industrial experience (recruitment of only under-32). Although Melfi is institutionally and politically in Italy, the socio-economic (3-1) and cultural gap between Turin and Melfi is very large and reminds of that between Western and East Germany, and notably of that between the Eisenach greenfield Opel site and those in western Germany.

Fiat started implementing *Cinquecento* production in Poland in 1991, before formally taking over FSM. As it was a new productive line to be transferred, it is not possible to speak of one-to-one transfer. Yet initially centralisation and ethnocentrism was extreme. Not only Italian managers (including HR mangers) but also hundreds of Italian workers were sent to Poland to teach and implement all productive aspects.

Such transfer effort almost immediately caused a deep rejection crisis. Cultural and status clashes between Italian and Polish workers were so deep that they left long-standing anti-Italian feelings, still alive in 2004. But above all the 'Agnelli' IR strategy of Fiat of privileging one trade union (Solidarity), to facilitate compromises with the government (the Tychy plant Solidarity leader happened to be the former prison cell-mate of Polish president Lech Wałęsa), and to capitalise on the Polish will to welcome capitalism, did not produce the expected results in both sites. In Bielsko-Biała, Fiat would use the plant office of Solidarity in its relations with the regional, Solidarity-inspired government for many years (Domański 2001). But in Tychy, where the company even recruited a Solidarity leading activist as personnel director's advisor, conflict exploded and Solidarity collapsed.

Discontent with the privatisation procedure, run in Warsaw without consultation with the workforce apart from two union leaders, led to a two-month occupation strike in Summer 1992. The two largest trade unions, Solidarity and former communist *Metalowcy*, after the first few days abandoned the strike which was continued by the smaller organisation *Solidarity 80*. At that time, Fiat was still not the official owner of the plants, so that the unions lacked a counterpart. The strike was completely lost. Fiat used techniques already well-tested in Italy: mobilisation of non-strikers, legal actions against target activists, involvement of political powers. Eventually, however, the strike crystallised a militant identity in a situation of dense conflict (Meardi 1996; Gąciarz and Pańków 1996).

The path of employment practices after the strike and privatisation is quite surprising and rather than to simple adaptation or diffusion strategies corresponds to a dynamic and moving attempt by the employer at making the most out of the different forms of unionism existing in Poland and in the factory. Solidarity, which was the initial privileged partner, almost collapsed after the strike, remaining excluded from the Tychy factory for a decade. Fiat replaced it with a strengthened relationship with its political opposite, *Metalowcy*, for the rest of the 1990s. *Metalowcy* granted the support and loyalty of clerical and core manual workers, and constituted a solid negotiating partner. The relationship with *Metalowcy* reminded Fiat's support of company union Sida in Italy before 1968, and it reflected the 'Valletta' strategy which had replaced the initial concessive Agnelli one. In that period, *August 80* (as *Solidarity 80* relabelled itself in 1993) was still however the largest trade union in Tychy with a very militant standpoint. Conflict took place mostly through individual, but union-supported, legal actions, an indicator of how company-level industrial relations, and grievance procedures, were not institutionalised. One short strike took place in 1994, and a 'work-to-the-rule' strike was threatened in 1996 (curiously, but also tellingly about the direction of hybridisation, such form of industrial action is called in Polish 'Italian strike').

Gradually, however, even *August 80* changed its role within the company, even though it remained a very militant and adversarial organisation at the regional level. It grumblingly co-signed the first partial collective agreement in 1996, and did not dare to call a strike after 1994, in spite of management expecting it and accepting it as an unavoidable cost. In the last few years, *August 80* has finally become similar to a company union itself, still fiercely independent but strongly siding with the employer against competitors. In 1998, a full collective agreement was signed, which was the most elaborated one in the Polish metalworking sector at the time. By Spring 2004, *August 80* was the most co-operative union in Tychy and it did not join the protest action of once more moderate Solidarity over pay increases. The relationship of Fiat with *August 80* (still by far the largest of the ten unions in the company) started then reminding the 'participative' one with formerly 'social movement' Fim-Cisl in the 1990s in Italy.

In 2004, even though the HR Director of Fiat Auto Poland is still Italian, industrial relations in the Polish factories are on the everyday basis managed by Polish personnel and have stabilised in a sort of layer-cake of different historical models, combined in a way driven by the specificities of Polish trade unionism. Unionisation remained overall relatively stable at 55%, but in sequence, *Solidarity*, *Metalowcy* and *August 80*, as representatives of the three Polish models of unionism (political, bureaucratic and rank-and-file), have imposed themselves as main actors only to be digested by innovative Fiat's strategies. In this regard, Fiat's structural power as a large employer in a country with unemployment at 20% is an additional important factor. Today, Fiat has turned its initial reputation of a 'bad' employer (which was criticised even by very neo-liberal and pro-privatisation media like *Wprost*) into a good reputation. When it announced some new recruitment in 2004, 4,000 applications were received in three days only.

Work organisation: the 'second Japan'

Similar, non-linear processes as in industrial relations occurred in work organisation. After privatisation, most workshops (assembly line and painting shop above all) underwent substantial modernisation. Work organisation was redesigned and an enormous increase in productivity followed. However, Fiat waited until 1996 before transferring the 'Japanese' organisation launched in Italy in 1989, and already implemented in Brazil. Management thought that a period of clear distinction of roles was necessary to extirpate the former 'socialist' participation and Solidarity self-management traditions, before starting with a radically new form of 'participation'. In addition, Polish foremen were not considered as ready to take over the responsibilities implied by the 'integrated factory' (own interviews).

Among the most important changes introduced in the first period of restructuring were (Gąciarz and Pańków 1996) the weakening of Polish executives' position, the weakening and numerical reduction of technicians in R & D (transferred to Italy), a massive move from indirect to direct production jobs, increased internal mobility (including between the Tychy and Bielsko-Biała factories, one hour drive away), working time flexibility, workforce rejuvenation, and an impressive drive for retraining. As to the last, 3,000 (25%) workers were involved in training in 1992-93 and hundreds of them visited the Italian plants, but this often had, in workers' view, an ideological rather than technical content. A final important change was the widening of salary differentials between workshop director and manual worker from 3 to 7 times. The resulting still Tayloristic production however caused a situation of conflict and adversarial relations (Meardi 1996).

The new productive principles, Japanese lean production (under the label of the Integrated Factory, IF) and the 'modular' factory based on large-scale in-house outsourcing, started to be implemented respectively in 1996 and 1998. There were however some important changes with regard to the original model.

As to Japanese production, the hierarchy was changed according to the Italian model, reducing the hierarchical layers, eliminating the most traditional foremen (*RePo*, or *Capi-reparto*) and introducing teamwork (ETU) with the new figures of ETU chiefs, CPIs and CPOs. However, in this process one important preliminary step which had been made in Italy was not made in Poland. According to Bonazzi (1994; 1998), one crucial reason why Fiat 'gentler way to Japanisation' was (unexpectedly given the lack of basically all Japanese home-country preconditions) so successful, lied in the previous 'high automation' phase, which, by massively reducing physical effort but also making work more monotonous, had prepared the grounds for worker acceptance of reorganisation. In Poland, automation had been introduced very selectively because the much lower labour costs did not justify the investment. Instead, it seems that cheaper functional equivalents for high automation had been found. First, in Poland refurbishing of toilets, showers and lockrooms had been sufficient to build consent to reorganisation in the same way ergonomic improvement had done in Italy. Second, the much higher education level of Polish workers in comparison to their Italian counterparts allowed for faster and more direct change. Finally, interviews have shown the counterintuitive judgement that the past planned-economy work experience had made Polish workers *more*, as opposed to less, well-suited to lean production and continuous improvement. In fact, as Burawoy had detected during his Hungarian research in the 1980s, under the shortage economy workers had become much more accustomed to creatively facing unforeseen events during production, and were therefore *more* flexible than their American counterparts (Burawoy and Lukács 1985). These capacities suddenly turned out to be precious for the company within a Japanese model which requires workers to immediately take action on any problem instead of, like under traditional Fordism, deferring the problem to final quality control.

With time, managerial authority was delegated from Italian to local managers (many of whom were already managers under state socialism) and everyday production management came in the hands of Polish workers with much less intervention by Italian technicians. Already in the late 1990s, instead of telling Polish workers to learn from the Italians, supervisors started to make the opposite remarks to Italian workers (which was not welcome in Italy). The process seems to have been achieved in 2003-04, when the new model *Panda* production was introduced in Tychy with minimal Italian intervention, and with a much smoother and successful outcome than in the previous cases of *Cinquecento* and *Seicento*. The local union *August 80* could then, in its bulletin, proudly affirm to have overcome the Italians (Kurier Związkowy 2003).

With regard to outsourcing, which had a dramatic impact on industrial relations in Italian sites (Bonazzi and Pulignano 2002), change was apparently very ethnocentric. The process was called *tercjaryzacja*, a word which does not exist in Polish but corresponds to *terziarizzazione*, the Italian term for outsourcing. However, the process did not cause as much disorientation as in Italy, surprisingly thanks to an organisational specificity of Polish unions, rooted in the August 1980 strikes on the coast: the horizontal, multi-site organisation. Polish unions reacted to outsourcing by constituting single, multi-employer union organisations covering both Fiat and outsourced employees under the same collective agreements (although further

separated agreements are signed in each company if there are specific reasons or issues), avoiding thereby the segmentation in status and coverage which has been a major preoccupation for unions in Italy. In this way, some rigidity was created in employment practices of Fiat and in-house suppliers (in 2004, some opposite move towards re-integration was in place), but change could be introduced in a less disruptive way.

In conclusion, Poland has become, in spite of a very difficult start, a successful specialised productive platform (*Panda* in Tychy, engines in Bielsko-Biała, now a GM-Fiat joint venture) through a complex path of reorganisation and change which is not simply and mechanically pushed from the headquarters but also combines various assets and strategies. Concentration of one product (in the lower segment of the market, where margins are smaller and cost consideration more important) in Poland for the global market means on one side that specialisation fosters quality improvement, but also that the Polish workforce has to face the whole of market volatility, through higher factor flexibility. By 2003, following the liberalisation of the Polish labour code, the unions have accepted (temporarily, for the present) overtime for up to 350 hours per year (as against 150 in Italy). Moreover, the pace of the assembly line is a matter of management unilateral control, while it is negotiated with the unions in Italy. Other geographic sites in Europe would have hardly guaranteed such low costs, high quality and high flexibility.

Fiat's path suggests that change in MNCs is a complex contested process which cannot be easily portrayed on the home-country vs host-country dichotomy. In fact, Fiat is a strong example of change starting in the periphery (Melfi, Brazil, Poland), but in accordance to MNCs interests and power. It is very difficult to speak then of 'one' model, given that 'a situation in which the industrial strategy simultaneously called for restructuring and downsizing in some plants and investment in new plants required the design and implementation of different and segmented IR policies' (Camuffo and Volpato 1998: 328). Fiat has been able to turn to its advantage Polish features (unionism, shortage economy tradition) which were not a part of its own original model.

In spite of the apparent success of Fiat Auto Poland, doubts may be raised about the long-term sustainability of such form of 'hybridisation'. Such doubts have become more compelling after the events in Melfi, the Southern Italian greenfield path-braking site. In April-May 2004 Melfi Fiat and suppliers' workers, so far considered as unaffected by union activism, won a 3-week strike on harmonisation of wages, working time and line pace with Northern Italy. These are exactly the same main issues which also distinguish the Polish sites from the Italian ones. Given Fiat JIT model, the strike almost immediately led nearly all Fiat Italian plants to a standstill. Even foreign companies were affected: the Bielsko-Biała factory remained without components, but interestingly enough the reason of the disruption was not communicated to the workforce.

Melfi has been defined as characterised by a 'constitutive contradiction': the combination between high workforce involvement in the 'integrated factory' model and authoritarian control methods, in which the latter term gradually prevails over the former (Di Siena 2004). Such structural contradiction applies to Poland too. But also another, more immediate component of worker dissatisfaction, that is the gap in working and pay conditions between South and North Italy, is relevant. Melfi suggests that segmentation of employment practices over time runs in contradiction with workers' extended socialisation patterns and increased expectations of stability. In a way, the success itself of the 'periphery' as a productive location makes

impossible to maintain its 'peripheral' character indefinitively. Even the 'author' of the Melfi model, former Fiat HR Director Magnabosco, had to recognise in 2004 that 'it was unthinkable that workers could remain for so long in a situation, so to speak, 'different'' (*Il manifesto*, 11 May 2004).

The question for Poland is whether East-West European socialisation may in the future be comparably effective as Italian North-South socialisation. Siemens and Volkswagen are already examples of relatively effective East-West union co-operation (Bluhm and Dörrenbächer 2003). In this regard the European Works Councils are particularly important. In the Fiat case, the company has been keen on avoiding East-West contacts as long as possible. Although the EWC was instituted in 1996, Fiat opposed any involvement of Polish representatives. Among Polish trade unions, however, the lack of invitation was blamed on Italian trade unions (Meardi 2000, Domański 2001). One Polish observer was invited only in 2001 and could participate in a meeting for the first time in November 2003, but it was an unelected representative of *Solidarity* (on the ground that it is the only union in the company to be member of the ETUC), a minority union, and did not lead to any dissemination to local Polish representation bodies. In May 2004 (our interview), the *August 80* company leader still believed that the EWC directive would not cover Fiat. Even more interestingly, at that time Polish unions at Fiat were still demanding the right to external phone lines and e-mail. They had not heard about the victorious strike at Melfi.

Conclusion

The two cases show, under opposite structural conditions, how foreign investment within the enlarged European Union follows paths that are not understandable upon a linear conception of 'hybridisation' as a mix between home-country model and host-country constraints. MNCs adopt a range of models, of which none corresponds to their home-country dominant practice, and of which many are stimulated by the host environment.

In the case of GC, the emerging model is a mix of traditional paternalism, craft culture, and 'Japanese' organisation. The success of this mix is built on two host-country features: working time flexibility (especially on shift work) and lack of effective social control, for instantce on the criteria of variable pay. None of these conditions was available in a comparable form in the German plant. The mix is personified by the Hungarian Director, whose pre-War-World-2 work ethic is the catalyst of change.

In the Fiat case, the pre-existence of militant trade unions is faced by management with a sequence of apparently contradictory strategies that do not correspond to the current Italian practice. In an interview in 1995, Italian managers declared that Fiat only had 'one model' for the whole world, but if asked in detail then they qualified this stating that participation and the Integrated Factory (the models in force in Turin) were not well-suited to the Polish environment. Yet while in the mid-1990s Polish observers (e.g. Gąciarz and Pańków) saw Fiat as locked into permanent industrial conflict, all three models of unionism present in the factory (political – Solidarity, bureaucratic – OPZZ, rank-and-file – August '80) rather quickly turned into resources, instead of sources of resistance. Solidarity instead of mobilising facilitated relations with the authority, OPZZ instead of bureaucratising lubricated the administrative structure, and August '80 instead of fighting in the workshops mobilised the employees against competitors. In all these cases Fiat did have to struggle with the unions, but did not repress or replace them with Italian equivalents.

In all these cases, it was the strong will of change among Polish workers that allowed the unions to take on such roles (Meardi 2000). The same allowed the implementation of outsourcing and Japanisation in a smoother way than in Italy. The familiarity with the everyday problems of production under the shortage economy constraints paradoxically turned into a facilitating factor for the JIT production requirements.

Today, the Hungarian site of GC has taken over almost all of the company production, and the Fiat Auto Poland factories are the only flourishing ones of the company in the world. In neither case there has been a single strike in the last ten years. Although this paper only presented two cases, they do not seem to be isolated. Flagships of the German industrial model like VW, Siemens and Opel are now asking their German employees to look at their eastern neighbours as benchmarks for productivity, flexibility and order. Something quite new for a country where *polnische Wirtschaft* was a favoured joke.

In both cases, with or without trade unions, what is impressive is how separate elements belonging to either the past (paternalism, company union) or the exterior (Japanisation) of the mother company were re-proposed in forms fitting with the employer's interests. Hybridisation was not endured by the MNC: the host country conditions did not constrain the investor, but they attracted it. It is a form of 'hybridisation *à la management*', where specific elements of different models are combined by managerial strategies and interests. MNCs were positively surprised by how welcoming and permissive the new environment was. MNCs did not behave like missionaries (the frequent metaphor for their action in economically weaker countries) but rather, to follow the similitude, like settlers, like the Quakers fleeing the corrupt land of origin to recreate an ideal version of their faith, which actually had never been materialised before, on more permissive shores.

What explains such developments? IHRM and 'global firm' models are not of big help. Even the idea of reverse diffusion of practice, for instance, assumes, among the conditions, a degree of host-country influence. This is not the case of Central Europe, a region that economically is still seen as having to learn, and where host-country practices have not been imposed by the local environment, but 'picked' and accentuated by the MNCs. Nor is the standard opposite, an institutional standpoint, of help to explain the diversification of MNCs models (for a discussion, see Ferner and Quintamilla 2003). It is precisely the weakness of Central Europe's institutions to foster this form of hybridisation. Some perspectives, like resource-based and rational-choice approaches, have shed some more light on the search for competitive advantage in the subsidiary and on strategies of diversification. It still remains to be explained, however, why such an extreme form of 'hybridisation *à la management*' is so noticeable in one geographic region.

Here there is a need for reconsidering the actors and their power in a political economy perspective. The situation of an enlarged EU is radically different from the classic globalisation one. Geographic proximity and abolition of tariff and non-tariff barriers between regions with such differences in labour costs and regulations gives MNCs a leverage in employment relations that is only a myth within 'globalisation'. In the aggregate, it might seem that differences in labour costs are compensated (at least in part) by productivity gaps. The evidence is however that within MNCs, when and where the same capital investments are made, there is no structural barrier preventing central European workers achieving the same productivity levels of their German counterparts – but at costs still dictated by the local labour market. The point of MNCs' power and structural lack of motivation for the 'European Social Model' within the new member states has been made clearly by Bohle and Greskovits (2004).

Of course, such a view requires some qualifications. There are MNCs that do try to export their models, including sometimes aspects of their western European social models. These prove to be well-suited to central European employee' expectations but often meet competitive difficulties or local managers' opposition. Also, resistance from the host country is not inexistent, weather formally like in countries with effective employee representatives (e.g. the Czech cases discussed by Bluhm and Dörrenbächer 2003) or informally like with high turn-over and organisational disloyalty. On most material aspects of employment relations, like working time, pay structure, and numerical flexibility, the gap with western Europe remains nevertheless macroscopic. Finally, there are some attempts at international regulation and harmonisation. The European Works Councils, although they do not as such change power relations, allow for instance central Europeans to realise that the models they are presented with in their sites are actually *not* (against what they are often told) the dominant western practice (Meardi 2004).

It is important to notice that it is not just a matter of labour costs. In the first case we have presented, the paradoxical outcome is that capital-intensive production has been transferred to the east, and labour-intensive (administrative and customer-commended production) production has remained in Germany. In the second case, we should remember that labour costs are around 10% of total production costs (a little more in the west, a little less in the east). It is not the declining, labour-intensive industries that are attracting FDI into Central Europe. It is a more complex mix including flexibility, openness to change, industrial culture, and lack of effective representation that creates the employer-friendly environment that invites 'settlers' with their new models, in sectors like transport equipment and electronics.

The future of such MNC's Quakerism remains uncertain. One open issue is social long-term sustainability. These forms of hybridisation, if attractive for cost reasons, may eventually be unsustainable, because of internal incoherence or because of employee rejection. This remains an issue for the long term, but previous experiences of late rejection (like at Fiat in Southern Italy, with the successful strike of 2004 ten years after the new 'Melfi' model was introduced) suggest that this is not an unlikely scenario. It is also possible to foresee regulatory answers. In terms of jobs, EU enlargement still does not correspond to standard views of 'social dumping', in the sense that the number of jobs created by the process in the west still exceeds the ones relocated. But the pressures employees are faced with within MNCs may show, for instance, that the choice of introducing limits to the free circulation of employees from the new member states is suicidal for western employees. For fear of a few thousands potential immigrants, the bargaining power of central European workers has been weakened, and a social rift has been open that risks to make crumble the same social model that it was meant to defend.

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