Economic Interests, Company Values and Local Institutions: Shaping Soft Work Practices in a Multinational's Subsidiaries in Western and Central Eastern Europe

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Abstract – How can we understand similarities and differences between work practices in multinational companies' (MNCs) subsidiaries in different host country conditions? The paper addresses this question by studying selected soft work practices, namely work systems and fringe benefits, in a Dutch MNC and its subsidiaries in Western and in Central Eastern Europe. Acknowledging institutional variation across the studied host countries, the paper explores how the MNC's economic interest and company values interact with host-country institutions in shaping subsidiary work practices. It is argued that the MNC's rational behaviour is contextualized in local socio-institutional conditions, as well as it is informed by company values. Interaction between the profit interest, values and institutions yields subsidiary work practices that are neither fully standardized across the subsidiaries, nor extensively adapted to local work standards. Instead, soft work practices are embedded in, but only selectively adapted to, host-country standards.

Wirtschaftliche Interessen, Unternehmenswerte und lokale Institutionen: „Soft work practices" in ost- und westeuropäischen Tochtergesellschaften eines Multinationalen Unternehmens

Zusammenfassung – Der Artikel analysiert die Unterschiede und Gemeinsamkeiten in „soft work practices", d.h. Arbeitssystemen und freiwillig gewährten Nebenleistungen in vier europäischen Tochtergesellschaften eines niederländischen Unternehmens. Es wird gezeigt, wie die wirtschaftlichen Interessen des Unternehmens und die in ihm vorherrschenden Werte mit den institutionellen Unterschieden an den einzelnen Standorten interagieren. Das Zusammenwirken dieser Faktoren führt zu der Herausbildung von Arbeitssystemen und Nebenleistungen, die weder vollständig standardisiert sind noch ausschließlich lokale Standards widerspiegeln, sondern selektiv in die Standards der Gastländer eingebettet sind.

Key words: **multinationals, soft work practices, work systems, company values, Central and Eastern Europe**

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Introduction

Globalisation and intensified transnational competition have led to the introduction of a variety of new work practices and forms of employee relations. Especially in large companies, including multinational companies (MNCs), attention to improved organisational performance is no longer limited to the most effective labour cost management, but involves a variety of *soft* work practices. These aim at motivating employees, fostering creativity and teamwork, rewarding personal initiative, providing social welfare and thus stimulating employee commitment to company interests (Dessler 1999; Dobbin 2005; Bolton/Houlihan 2007; Jacoby 2005; Nolan/O'Donnell 2003; Truss et al. 1997). The specific characteristic of soft work practices is that they are excluded from a formalised employment contract and are often beyond the scope of legal regulation or collective bargaining. Instead, they are formed and continuously recreated in management-worker interaction at the workplace. Recognizing soft practices rests on the premise that managing organizations like communities instead of distant, market-like relationship vis-à-vis employees yields comparative advantages to companies in their business performance (Pfeffer 2006; Pfeffer/Veiga 1999; Peterson 1993). Soft work practices thus do not directly derive from labour costs, but from company values and social relations between managers and workers at the workplace.

How can we understand similarities and differences between soft work practices in MNC subsidiaries in differing local conditions? Other than reflecting the company's economic interest, a successful implementation of work practices requires attention to workers' interests, and to specific national cultural and organisational aspects in which work practices are applied (Michailova 2002; Maurice/Sorge 2000; Peterson 1993). This is particularly relevant for MNCs, because they simultaneously operate in different host-country conditions. In an attempt to understand how MNCs' soft work practices respond to corporate economic interests and host-country conditions in Western Europe and Central Eastern Europe (CEE), this paper has two aims. First, it documents and compares selected soft work practices (work systems and fringe benefits) in two Western and two CEE subsidiaries of a Dutch MNC. Acknowledging institutional variation in labour laws, industrial relations and working standards across Western Europe and CEE, the paper's second aim is to understand which factors shape the observed similarities and differences in soft work practices. With this focus, the paper responds to the recent literature's call for comparative analyses of work practices resulting from politics within MNCs, i.e. the micro-level relationship between management and employees in a cross-national perspective (Ferner/Quintanilla/Sánchez-Runde 2006; Geppert/Mayer 2006; Tempel/Wächter/Walgenbach 2006; Scharpf 1997).

In understanding whether work practices across subsidiaries differ or converge, available literature has considered the MNC's instrumental economic interest and the role of host-country institutions as explanatory factors. Next to these factors, I consider the role of MNC's corporate values, or its administrative heritage of doing things in the organization, for understanding soft work practices (Bartlett/Ghoshal 2002). I argue that *interaction* between the profit interest, moral values and host-country institutions is central in understanding the construction of work practices and their cross-subsidiary similarities and differences. The means of achieving profits are endogenous and informed by company values, responsiveness to workers' interests in different countries and the MNC's ability to benefit from host-country resources. Values shape the MNC's perception of what is rational and how to achieve profits in differing subsidiary conditions. Thus, the MNC's rational behaviour in producing similarities and differences in work practices is contextualized in local socio-institutional conditions, as well as it is informed by company values. Such interaction yields subsidiary work practices that are neither fully standardized across the subsidiaries, nor extensively adapted to local work standards. Instead, the MNC's soft work practices are embedded in, but only selectively adapted to, host-country standards.

The paper is structured as follows. The next section conceptualizes the explored work practices as well as the MNC's economic interests, values and host-country institutions. In the third section I provide empirical evidence on work systems and fringe benefits across four MNC subsidiaries in Belgium, France, Hungary and Poland. The fourth section compares work practices across these subsidiaries and relates them to relevant local standards in each case. The fifth section explains how the MNC's profit interest, values and local institutions interact in understanding cross-subsidiary similarities and differences and the utilization of host-country conditions. The concluding section summarises the overall argument.

Conceptualising work systems and fringe benefits

Soft practices derive from company values, social relations between managers and workers at the workplace, and from implicit aspects of the employment contract (c.f. Marsden 1999). However, empirical studies on employment relations in MNCs predominantly focus on work practices directly related to labour costs, which are part of a formal employment contract, i.e, working time, employment flexibility, and wages (Almond/Ferner 2006; Marginson/Meardi 2006; Meardi/Tóth 2006; Bluhm 2001; Ortiz 1999; Gallie et al. 1998). Such orientation leaves less formalised work practices (i.e. workplace communication, commitment to worker welfare, worker discretion) without a sufficient comparative exploration.

Motivated by this shortcoming, the current paper describes two sets of soft work practices: work systems and fringe benefits of production workers in four subsidiaries of a Dutch industrial MNC across Western Europe and CEE. The aim is to shed light on similarities and differences between the subsidiaries and between subsidiaries and local standards; and to understand how several explanatory factors, i.e. the MNCs' profit interest, corporate values, and the local institutional framework, interact in shaping these practices.

The East-West comparison is justified because of distinct economic and institutional conditions, including employment regulation, trade union roles, working standards and motivation practices (Kohl/Platzer 2004; Danis 2003; Michailova 2003; Meardi 2002; Sagie/Koslowsky 2000; Whitley et al. 1997). In the West, employment relations and work practices are to a great extent entrenched in long-term commitments, consensual work organisation, and institutionalised bargaining (Bluhm 2001; Ferner/Quintanilla 1998). In contrast, with more extensive workplace competition and the use of performance-related pay, CEE presents a less coordinated institutional context for work practices than Western Europe without a strong collective representation of workers' interests (Sagie/Koslowsky 2000; Whitley, et al. 1997). The empirics reveal how the studied MNC has taken advantage of these differences.

The conceptualization of work systems draws on the social structuring of management-workforce interaction at the workplace, embracing distinctive patterns of interconnected characteristics of task organisation and control, workplace relations between social groups, and employment practices and policies (Whitley 1999: 90). Work system attributes adopted from Whitley (1999) directly address micro-level social interaction at the workplace and therefore offer a feasible operationalization for a subsidiary-level case study (see table 1).

Table 1: Work systems

Attributes	Work system type				
	Taylorist	Delegated responsibility		Flexible specialization	
		Paternalist	Negotiated	Artisanal	Patriarchal
Task fragmentation	High	Low	Low	Low	Low
Worker discretion and involvement	Low	Considerable	High	High	Limited
Managerial control over work organization	High	Considerable	Some	Some	High
Separation of managers from workers	High	Variable	Low	Low	High
Employer commitment to core workforce	Low	High	Considerable	Limited	Limited
Rewards tied to:	Standardized jobs	Personal performance and abilities	Skills	Skills and personal evaluation	Personal evaluation of performance

Source: Whitley (1999: 92).

The assessment whether the subsidiary scores high or low on particular attributes, listed in the paper's empirical section, derives from a comparative evaluation of subsidiary practices relative to the other subsidiaries as well as the local standards in each host country. Next to participant observation in the CEE subsidiaries, I interviewed subsidiary and headquarter managers, subsidiary and higher-level trade unions, representatives of the local society and local labour market boards in all host countries. For the sake of comparability, the same interview templates were used across all countries and subsidiaries.

The second set of studied soft work practices includes social welfare provisions, or fringe benefits, for subsidiary production workers. Generous fringe benefits tend to be offered in paternalistic companies that fulfil their economic interests via raising a committed workforce (Pfeffer 2006; Stoop 1992). In contrast, a company aiming at short-term profit maximisation through exploiting workers' skills is reluctant to offer generous benefits (Deery/Iverson 2005; Hyman/Mason 1995). They can therefore be in the long run beneficial for the MNC's profit interest (Deery/Iverson 2005; Heller et al. 1998). In Western Europe, coordinated employment relations secure an extensive institutionalisation of benefits and thus create external pressures on MNCs to provide them (Meardi 2006; Mailand/Due 2004; Dickmann 2003). In economies with a lower degree of institutionalised employment regulation, including CEE countries, MNCs are driven to provide benefits on a competitive basis. Thus, in such countries fringe benefits depend greatly on market pressures or on MNCs' voluntary decision to provide benefits. In the analysis of fringe benefits, I draw on the same data sources and follow the same methodological principles as in the analysis of work system attributes.

In an attempt to understand why subsidiary work systems and fringe benefits are similar or differ, I consider the interplay of three relevant explanatory factors. The first one is the MNC's instrumental economic interest, operationalized as a strive for immediate profits through international competitiveness and efficiency (Paauwe/Boselie 2005; Martin/Beaumont 1998). Second, I acknowledge the coercive effect of host-country institutions on MNC behaviour and work practices (Maurice/Sorge 2000; Ferner/Quintanilla 1998; Luthans et al. 1997; Maurice et al. 1981). Third, attention is paid to company values and beliefs about a socially accepted way of running a company (Scharpf 1997). These values are the hallmark of the MNCs' administrative heritage and may alter managerial behaviour towards workers regardless of economic interests and institutional constraints (Pfeffer 2006; Bartlett/Ghoshal 2002).

First, in an economic perspective, companies are instrumentally rational actors exclusively motivated by their profit interest, making calculations of costs and benefits of alternative actions (Bandelj 2008; Rubery/Grimshaw 2003; Phelan/Lewin 2000; Turner 1991; Womack et al. 1991; Grandori 1987). A consideration of costs, including those of soft work practices, should thus be central in the decision about subsidiary practices. Applied to MNCs, we can operationalize the MNCs' economic interest as profit interest (Kahancová 2010; Grandori 1987). To achieve profits, MNCs are expected to strive for international efficiency through the diffusion of universal work practices exogenous to the local subsidiary context (Rubery/Grimshaw 2003: 28). Striving for international efficiency is the main factor accountable for the requirement to lower costs, including labour costs and worker benefits (Cappelli 1999). The empirical measurement of MNC's economic interest relates to this cost consideration, namely, whether the decision to adopt a particular soft practice in the subsidiary is directly related to cost measures. Next to these direct cost considerations, I also consider counterfactual evidence on soft practices; to be observed if the MNC would strictly follow cost considerations in particular practices. Furthermore, I refrain from distinguishing between short-term and long-term profit interests and maintain that a direct relation to costs is a better indicator. In the long-run, each MNC is expected to act pragmatically and follow a rational behavioural logic influenced by the particular context in which work practices are constructed (Kahancová 2010).

Deriving from the profit interest conceptualization, I expect the MNC's economic interest to be a strong explanatory factor of soft work practices only if particular work practices directly relate to labour costs regardless of local institutional pressures. In particular, generous benefits should be provided only if directly improving MNC profitability (c.f. Deery/Iverson 2005; Sagie/Koslowsky 2000). Following this instrumental economic logic, one should observe cross-subsidiary convergence in work practices resulting from the MNC's strive for efficiency and profits through best practice. Eventual cross-subsidiary differences in work practices can then derive from the resistance of host-country institutions to MNC conduct (Harzing/Sorge 2003; Rubery/Grimshaw 2003; Ortiz 1999).

Host-country institutional pressures, or local isomorphism, are countervailing forces to the MNC's profit interest shaping subsidiary work practices. Local factors can constrain MNCs in opting for a cross-subsidiary diffusion of best practices and pull them in the other direction; namely, encouraging MNCs to adopt work practices similar to other employers in the local environment (Ferner/Quintanilla 1998). In other words, local institutions coerce MNCs to adapt to local work standards (Soskice 2000; Streeck 1992; Dore 1991; Maurice et al. 1981). Acknowledging the institutional differences, i.e. coordinated regulation of work practices, role of trade unions and strong legal enforcement mechanisms across Western Europe and CEE, MNCs should maintain their commitment to decent working conditions and generous benefits in Western Europe because of institutional pressures. In CEE, MNCs are expected to foster a market-like relationship with workers, with less commitment to decent working conditions and fewer non-wage benefits. This means buying labour for money without long-term commitment and keeping the local workforce out of the MNC's organizational boundaries (Pfeffer 2006).

Operationalizing and measuring the impact of host-country institutions on work practices is a challenging task. In this qualitative comparative case study, I evaluate the coercive strength of host-country institutions to force MNCs to adapt to local work standards by comparing the MNC's subsidiary practices and local standards in each host country. This comparison yields relevant findings only if coupled with a counterfactual comparison of documented subsidiary's practices with hypothetical practices following the MNC's profit interest and thus labour costs, and an effort in diffusing best practices across the subsidiaries.

The final factor considered in explaining similarities and differences in work practices are company values, referring to a common understanding about how certain processes are best dealt with in the MNC and at what level of the organization (Bartlett/Ghoshal 2002: 37-8). They shape organizational capabilities, business processes, subsidiary roles, and interaction with employees, suppliers, and other actors. Bartlett and Ghoshal (2002) refer to such set of values as to administrative heritage resembling company traditions in particular configuration of assets and capabilities, distribution of managerial responsibilities, and an ongoing set of relationships that endure long after structural changes. Values can account for the decision whether to build commitment to workers in a long-term perspective or whether to aim at exploitative and market-like employment relations. Operationalization of MNC values in this paper draws extensively on a broader study of the MNC's history and the social construction of subsidiary work practices, as well as on secondary literature focusing on the same MNC (Kahancová 2010; Bartlett/Ghoshal 2002; Stoop 1992). In this paper, I present values that have continuously shaped the construction of subsidiary work practices; and analyze how they alter the MNC's universal profit interest when responding to host-country institutions and constructing particular work practices in particular subsidiaries.

In the following sections I elaborate how the MNC's profit interest, host-country institutions and company values interact with each other in the construction of soft work practices; and how this interaction accounts for observed similarities and differences across the subsidiaries.

The paper's empirical evidence draws on a broader book project on work practices in a leading Dutch MNC in the electronics sector (see Kahancová 2010). For reasons of confidentiality, the company is referred to by an acronym *Multico*. Multico was established in the late 19th century and experienced a gradual expansion abroad. Despite recent corporate reorganisations aimed at centralizing core assets and strategic decisions, the corporate strive for profitability continues to coexist with decentralised labour management. Multico maintains its long-established reputation of responsiveness to local conditions, especially through decentralised employment relations. I focus on work systems and fringe benefits of production workers in Multico subsidiaries located in Belgium (hereafter MBE), France (hereafter MFR), Hungary (hereafter MHU) and Poland (hereafter MPL). These subsidiaries belong to key employers in respective local conditions and are comparable in their industrial activity, products produced, position within the MNC's structure, and headquarter relations. Despite some expatriate managers to control the production process and align it with corporate strategies, all HRM managers were locals. The analysis is based on internal company reports, local newspaper clippings and 114 detailed face-to-face interviews conducted in 2004 and 2005. An in-depth elaboration of the company structure, its history and the characteristics of the studied subsidiaries is included in Kahancová (2010). Methods of data collection and data analysis are elaborated in Kahancová (2007, chapter 3).

Work systems and fringe benefits across MNC subsidiaries

Selecting subsidiaries within the same MNC for empirical scrutiny yields a unique comparative framework of most similar subsidiaries in different host countries. Subsidiaries are similar in their labour force size, products, and position within Multico's corporate structure (Kahancová 2010: 46-52). Their production, coordinated by an assigned business unit within Multico's corporate headquarters, embraces assembly of televisions and home entertainment products. Subsidiaries also share a wage strategy (paying slightly above local sectoral average) and undergo comparable production cycles (high-season vs. low-season production).

Unlike their similarity in production and structural location within Multico, the subsidiaries are located in countries with distinct labour market conditions and industrial relations.[1] MBE, established in 1950s, is located in a highly industrialised region with many employment opportunities. MFR, established in 1972, benefits from the

1 See Kahancová (2010, Chapters 2 and 5) for a detailed description of each subsidiary's external conditions, workforce, work practices and workplace industrial relations.

region's relatively high unemployment and availability of temporary agency workers. MPL operates in conditions of high unemployment despite the presence of several large employers and thus job opportunities. In contrast, MHU faces a tight labour market with low unemployment, which forces Multico to develop innovative ways to secure workers' commitment (Kahancová 2007).

Multico's subsidiaries share several work system attributes: low separation between managers and workers, training encouragement, and commitment to a highly performing workforce based on collective and individual performance evaluations. Still, they differ in other attributes: competition between workers (CEE compared to Western subsidiaries), task fragmentation (MHU compared to the others), managerial control over work organization (MPL compared to the others), and the basis for reward allocation (CEE compared to Western subsidiaries). A detailed comparative overview of Multico subsidiaries' work organization that constitutes a subsidiary-specific work system is listed in Table A.1 in the Annex. Next, a comparison of performance rewards and the basis for their allocation is included in Table A.2 in the Annex. The provided empirical evidence helps evaluating particular work systems' characteristics in each subsidiary vis-à-vis other subsidiaries and formulating an argument regarding cross-subsidiary similarities and differences. Assessing this evidence, work systems characteristics in Multico subsidiaries can be summarized as follows (see table 2 below).

Table 2: Work systems in Multico's subsidiaries

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

Source: author's analysis following Whitley (1999).

Each subsidiary pays attention to developing workers' competences and identifying individual abilities. Managers maintain that direct interaction with workers is crucial for subsidiary performance and productivity, and that the subsidiaries should invest in raising a committed workforce. Daily interaction between managers and workers, coupled with a low separation between management and workers, are essential for Multico's intention to build cooperative work relations. This managerial attitude is consistent across various work system attributes, including communication style, motivation, and informal workplace interaction. Multico's managers do not aim at straightforward domination and exploitation of the workforce, but at an alignment of workers' values with company values through increasing the workers' beliefs that they are important for Multico. A quote from MPL's manager illustrates this point:

> " […] 'Nobody works for Multico; you only work for your boss.' That's true. If you look up to your boss and you have a lot of respect for him, he has been very good to you and you have been very good to him and the communication works there, if he comes to you and says 'I would like you to work an extra hour today,' you would be much happier to do it than if you have a very bad relationship and you have some kind of dictator walking along the production line" (Manufacturing Manager MPL, 21 April 2004).

The outlined similarities however do not mean that Multico harmonizes soft work practices across the studied subsidiaries. Rather, responsiveness to particular local conditions is a central attribute of Multico's administrative heritage. In the past twenty years of corporate development, which have included severe reorganisations and job losses, Multico has continued to maintain its paternalistic work practices responsive to different country conditions as long as they do not clash with corporate economic interests, thus balancing the need for profits and efficiency with a purposeful utilization of host-country differences. In consequence, subsidiary managements draw on host-country standards when constructing their soft practices. This leads to a selective adaptation, such as adjusting work practices to host-country culture and perception of hierarchies. In MFR the hierarchy between the worker and his/her boss is maintained and communication is more formal, whereas in MBE the workers call their managers by their first name. A similar situation exists in MHU, in line with common practice in Hungary, where managers and workers address each other by first names and maintain informal relations despite formal hierarchies. In line with Polish standards, the hierarchy in MPL is maintained, but people generally agree right away to call each other by their first name and communicate informally. This applies especially to managers and workers in daily contact.

Aside from outlined similarities, the subsidiaries diverge in several work system characteristics that are responsive to local conditions and worker mentalities. The most important differences apply to workers' financial motivation. Allocation of rewards is linked to performance differently in each subsidiary (see Table A.2 in the Annex). Competition between workers is fostered in the CEE sites but not in Western sites. Financial motivation is extensively used in CEE, but not in Western subsidiaries. In this respect, a clear East-West division in Multico's practices is observed. In the West, soft motivating factors, such as delegated responsibility, open communication, non-financial performance appraisals, increasing workers' interest in company developments, or the possibility of reverse appraisals (workers' feedback to immediate supervisors) tend to be more successful. The influence of trade unions also constrains the use of performance pay in Western Europe. In CEE subsidiaries, soft motivating factors including non-financial performance appraisals exist but are effectively combined with financial motivation.

Finally, evidence demonstrates individual subsidiary differences, distinct from an East-West pattern: i.e., between MHU and the others in task fragmentation, and between MPL and the others in managerial control over work organisation and trade union involvement in management-workforce interaction. First, the only subsidiary where managerial control over work tasks is low is MPL. Host-country institutional influences do not account for this fact, because in MPL, and in Poland in general, unions are structurally the weakest of all the countries studied. The reason for workers' extensive freedom over their tasks in MPL is that managers perceive the skilled workforce to be able to shoulder individual responsibility. A larger workforce in MHU, compared to other subsidiaries, complicates delegated responsibility as extensive as in MPL. Second, managerial control over work organisation tends to be lower in countries with strong trade unions, as in Belgium and France. However, in the case of Multico the unions have not been strong enough to decrease managerial control, which leads to a conclusion that Multico's work systems in Western subsidiaries differ from local standards in managerial control in these countries.

What do the above findings suggest about overall subsidiary work systems? Although none can be directly associated with Taylorism, delegated responsibility or flexible specialisation, all Multico subsidiaries fit a delegated responsibility work system with elements of paternalism. This substantiates earlier evidence that paternalism towards workers has been an inherent feature of Multico's corporate values over decades (Kahancová 2010; van der Meer 2000; Stoop 1992). In its home country the Netherlands, Multico has long been perceived as a social employer offering well-paid jobs, employment security, housing, health care, education and socio-cultural services for employees (van der Meer 2000; Stoop 1992). However, Multico's paternalism is complementary to the company's economic interest. This is obvious in the fact that paternalist practices coexist with tight managerial control in some subsidiaries and the fact that workers' discretion over work tasks is granted only when contributing to the MNC's strive for profit.

Despite observed similarities and differences in work systems, the fact that all subsidiaries fit one work system type is relevant for an argument that a specific work system derives from an interaction between Multico's profit interest, corporate values (paternalism and local responsiveness) and host-country standards. This argument goes beyond an MNC-driven diffusion of best practices or a forced adaptation to local standards resulting from the operation of host-country institutions. I elaborate this argument in section five.

Fringe benefits in Multico subsidiaries comprise practices to increase workers' material wellbeing, and practices fostering recognition of personal qualities and demonstrating Multico's interest in responding to workers' work-related and in personal-social interests. For the sake of brevity, I refer to Table A.3 in the Annex for a detailed overview of fringe benefits in each subsidiary. Despite differences in particular types of benefits across subsidiaries, the interviews conducted with key informants suggest that Multico's overall aim is to improve workers' social welfare across different countries. Fringe benefits are neither coordinated across the subsidiaries, nor do they result from a direct headquarter dictate. Instead, these practices are exclusively local, utilizing local conditions even if not fully adapting to them. This aligns with Multico's corporate value of local responsiveness and cooperation with local actors, i.e. unions or works councils, in utilizing local conditions.

Evidence on fringe benefits is consistent with the findings on work systems, namely, that the economic interest and paternalist values govern subsidiary work practices while utilizing local standards and cross-country differences. The provision of benefits involves costs for the MNC without a direct positive effect on immediate profits and efficiency. For this reason, I maintain that providing benefits has a broader aim than directly facilitating profits. Of course, Multico's fundamental interest is profit maximization, but the means of achieving profits are long-term, endogenous and influenced by company values (responsiveness to workers' local interests) and local conditions.

In sum, evidence shows that Multico opted for a delegated responsibility type of work system with elements of paternalism and rather generous fringe benefits regardless of subsidiary location. This broadly understood similarity is coupled with a number of cross-subsidiary differences in specific work practices. An evaluation of this evidence – based on a comparison across the four subsidiaries and between the subsidiaries and host country standards – follows next.

Comparing subsidiary work practices

Multico's work systems attributes reveal that some diffusion of best practices across the subsidiaries is taking place, although a direct headquarter control over subsidiary work practices is marginal. These include delegated authority, flat hierarchies, open communication, and informal management-worker relations. It is however not only through best practices that Multico assures worker compliance with profit interest and company values. The MNC understands that successful practices in one case may not have the same effect on profitability in other cases due to different institutional and cultural conditions. Therefore, next to best practices, several work system attributes build on local conditions. The institutional effect of host countries is relevant, but cannot be separated from Multico's own willingness to utilize local differences. Variation is found predominantly in reward allocation (collective in Western subsidiaries and individual in CEE subsidiaries), the type and extent of fringe benefits, and the use of financial motivation.

Diffusion of best practices in some work system characteristics is not reproduced in fringe benefits; subsidiary benefits are fully responsive to local standards. Interestingly, we cannot speak about the MNC's *adaptation* to host-country standards; because especially in CEE the subsidiaries' benefits, and work practices in general, tend to exceed local standards. This finding goes against expectations derived from market-driven conditions in CEE and to a short-term profit drive and exploitative MNC practices in lower wage countries. Moreover, MHU and MPL benefits relatively surpass those in MBE and MFR. Why is this the case? First, maturity of Western subsidiaries, stable institutional conditions and strong trade unions account for wage stability, predictable working conditions and, to a certain extent, job security. In result, the effect of additional benefits on worker motivation is more limited than in CEE countries. Second, Western subsidiaries face higher labour costs and therefore increased budget constraints. Third, because fringe benefits are not corporately determined, their extent depends on the values of local managements as well as on local institutional effects, including welfare states and trade union strength. The business success of MBE is attributed to the strong task orientation of its general manager at the expense of a modest human orientation. In MHU and MPL, managers are more people-oriented than task-oriented, and their personal values are reflected in the extent and type of fringe benefits provided. Finally, working conditions in CEE subsidiaries are more demanding when compared to Western subsidiaries (i.e. longer working hours, a higher number of shifts, lower wages) and Multico aims at compensating tough working conditions with generous benefits. In sum, variation in fringe benefits cannot be attributed to Multico's profit, company values, or local institutional effects individually. Rather, it is the interplay of profits, values and institutions that allows us to understand why Multico adopted particular practices in particular countries.

When contrasting the observed work practices with common patterns in each host country, similarities and differences are found yet again. Multico's work system in MBE diverges from other evidence on Belgian standards through its high managerial control in work organisation and at the same time extensive communication and feedback, low separation between managers and workers, flat hierarchy, and lack of headquarter interference in work practices. However, MBE fits the Belgian standard of lacking any financial rewards, most importantly, performance-related pay (Hees 1995 and interview respondents).

In contrast to French standards described in the literature, MFR is far from strict workplace hierarchies and formal relations (Brunstein 1995; Goyer and Hancké 2006: 178; Maurice et al. 1981: 84). Despite high managerial control in work organisation, French Multico managers claim MFR to have better internal relations than locally comparable companies, where employees report considerable pressure and authoritarian management styles. Multico is close to general French practices in fostering teamwork, training, and modest competition via performance-related benefits (EPOC 1995). Evidence on MFR's fringe benefits does not support Brunstein's (1995) findings that practices of some MNCs in France lack social sensitivity towards workers and only aim at profits.

MHU's work system aligns with Hungarian standards because of high managerial control and less mobility between positions, which is related to the large size of the workforce. In other practices Multico differs from Hungarian standards in relatively generous benefits, direct employee participation, and institutionalisation of performance evaluations (Whitley et al. 1997). According to the interview respondents, workers appreciate performance pay, fringe benefits, communication possibilities and informal interaction with managers in MHU irrespective of the tight local labour market situation with sufficient job opportunities.

MPL shows a more positive picture of work practices in Poland than documented in other studies (Kohl/Platzer 2004; Sagie/Koslowsky 2000; Maczynski et al. 1994). Personal values of MPL managers lead to extensive fringe benefits, teambuilding beyond workplace via social events, and relatively good working conditions despite tough working time and job insecurity due to a high number of seasonal jobs. This enhances the MNC's reputation as an attractive place to work, and deepens the gap between Multico's work practices and local standards.

In sum, work systems and fringe benefits in Multico subsidiaries suggest neither a full-fledged corporate diffusion of best practices with the direct instrumental purpose of profit seeking, nor an extensive coerced adaptation to local standards due to institutional pressures. Instead, work practices constitute a mixture of best practices and locally responsive practices, drawing simultaneously on Multico's corporate interest, paternalism and local responsiveness, and a purposeful exploitation of local differences. Going beyond this conclusion, in the next section I elaborate the interaction between profits, values and institutions in accounting for the observed similarities and differences.

The role of profits, company values and local conditions for MNC work practices

In an attempt to explain similarities and differences in MNC work practices across different host countries, the existing literature draws mainly on economic/organizational and institutional influences.

An economic/organizational perspective on work practices suggests that MNCs build commitment to workers and offer generous benefits only if this leads to increased profits (Deery/Iverson 2005; Sagie/Koslowsky 2000). Evidence in this paper does not reject this claim, but suggests looking closer at the means of achieving profit. Profit-related measures in subsidiary work practices are central for optimising the MNC's efficiency. At the same time they increase costs in terms of managing the adequate work practices. And, even more importantly, by instrumentally following exclusively an immediate profit goal (in a short-term perspective), Multico would not be motivated to provide generous benefits in CEE, reward workers for personal achievements, and emphasise informal workplace interaction. Obviously, the purpose of these practices is raising a committed workforce securing long-term profitability. But when these practices are being constructed, management is faced with high uncertainty regarding the long-term effects on profits. Neither does the company conduct direct evaluations and carry out benchmarking against competitors on whether such behaviour actually improves profitability. The origin of this *no-benchmarking* relates to Multico's commitment to decentralized HRM and paternalism towards workers.

This argument does not render profit considerations unimportant in the MNC's employee relations. Rather, it suggests that the profit interest closely interacts with other factors, including company values in general and a purposeful local responsiveness in particular. In the past three decades, Multico underwent several major reorganisations. Responding to increased global competition, restructurings brought a greater transparency in the organisation's functioning, but also severe consequences for employment. The number of jobs for production workers considerably decreased, especially in Western Europe. In some cases, temporary or agency workers replaced permanent workers. Thus, in issues of strategic importance, profit is the MNC's priority. The means of fulfilling the profit interest are however endogenous and leave a significant scope for influence of company values and local institutions.

In an institutionalist perspective, local institutional factors exert constraints on subsidiary work practices in coercing them to local standards (Ferner/Quintanilla 1998). However, they also create institutional spaces and opportunities in which the

MNC embeds itself in order to purposefully construct locally responsive work practices to meet its profit interest (c.f. Maurice/Sorge 2000; Sellier 2000; Streeck 1997). Multico recognises the impact of host-country conditions, both national and local, and reflects them in decentralised employee relations. Already in the early 1970s, the company was well known for its responsiveness to differing local conditions, as illustrated by one of the managers:

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

If one only considers the coercive effect of local institutions, the outcome would be a forced adaptation of MNC practices to local standards. However, as shown above, such a wide-ranging forced adaptation of subsidiary work practices to local standards does not apply to Multico. Especially the findings in CEE subsidiaries are puzzling, because Multico's way of treating workers and the generosity of fringe benefits exceed local standards. The CEE environment is relatively conducive to the exploitative treatment of workers by MNCs. A strong institutional framework, i.e. legal stipulations and a system of collective bargaining to facilitate workers' welfare, is absent (Meardi 2006; Avdagic 2005; Mailand/Due 2004). Therefore, Multico is not under institutional pressures to offer generous benefits and above-average working conditions. Societal pressures, i.e. benchmarking work practices against other locally established companies, and local fashions in management practices that would force Multico to adapt to local standards in CEE, are not extensive either (Pfeffer 2006; Abrahamson 1996). Had Multico been pushed to adapt to local standards because of institutional pressures in Hungary and Poland, flat hierarchies and attention to worker welfare would have been less evident than documented. Regardless of external conditions in CEE, Multico maintained its commitment to offer better work practices than other local employers and even some MNCs. Therefore, I argue that instead of a forced adaptation, the effect of local institutions is visible through its interaction with Multico's profit interest and corporate values. In result, Multico purposefully utilizes local conditions and selectively adapts work practices to local standards.

Next to the economic/organizational and institutional effects, I argue that a full understanding of similarities and differences in soft work practices has to incorporate company values, which interact both with the profit interest and with local institutions. Paternalist values have continuously shaped Multico's actions since the company's establishment in the late 19th century and its gradual expansion abroad in the early 20th century. Paternalism originated in the company's early attempt to pacify the organised labour movement in the Netherlands (Stoop 1992). Later, Multico's charismatic leaders actively fostered paternalism and local responsiveness after being exposed to the great economic depression in the 1930s and the company's effort to protect jobs during the Second World War (Kahancová 2010). In consequence, a company-specific value system was gradually strengthened and permeated managerial thinking at all levels of the organisation. The selection and training of local managers is important in maintaining this value system. Instead of imposing corporate values on local managers, the company recruits individuals whose personal values match the MNC's values. These managers are then granted large autonomy from headquarters to locally construct work practices. In other words, the tight value system of Multico is balanced with a loose deployment of corporate values in differing local contexts.

The above analysis suggests that profits, values and local conditions do play an important role in shaping Multico's work practices. However, the explanatory relevance of profits, values and local conditions becomes clear only after exploring their interactions and interdependence. Below I summarize these interactions.

Multico's drive towards profit has put company values under pressure. However, instead of evading earlier paternalism and local responsiveness, Multico continuously seeks to balance its profit interest with established values. Disembedding from the MNC's value system is complicated because the values form the MNC's path-dependent administrative heritage (Bartlett/Ghoshal 2002). Instead of trade-offs between profit interest and values, Multico attempts to balance these and avoid potential clashes. Values shape the company's perception of what is rational and how to achieve profit in differing conditions. As a result, Multico's reorganisations have brought an improvement in profits and efficiency and at the same time signalled a continuity of company values in subsidiary work practices. Any company action is ultimately profit-driven, but in decisions whether or not to achieve profits by soft work practices responding to local workers' interests, Multico has opted to do so. Regardless of direct profit expectations, managers have maintained their concern about workers' welfare and the belief that people appreciate decent working relations and are more willing to expend extra effort when they are psychologically connected to their employer (Pfeffer 2006). In other words, company values became the means of achieving long-term profit. At the same time, values account for good working conditions even in implicit aspects of workers' employment contract that are not subject to legal regulation or collective bargaining. This means that company values stimulate work practices with positive effects both for the MNC and for workers.

Aside from the profit-values interaction, the MNC's economic interest interacts with institutional conditions in host countries. Multico's local headquarters in the host countries have always enjoyed great decision-making powers in governing subsidiaries located in the respective country. Corporate reorganisations have not led to a centralisation of such powers at corporate headquarters, but have facilitated further autonomy of subsidiaries. This is not the result of Multico's inability to centralise the construction of subsidiary-specific work practices, but the company's belief that the subsidiary is the optimal organisational level for managing local resources, in particular work practices. Decentralised management aims to better reflect the needs of subsidiary workforce and to decide the subsidiaries' strategic role within the corporate structure (c.f. Kristensen/Zeitlin 2005). Multico believes that this kind of HRM constitutes the best means to achieve long-term profitability. In other words, Multico has combined the endeavour to achieve profit with utilizing host-country diversities. The fact that the company itself is willing to construct different work practices in different countries eliminates the tension between a universal profit interest and differing host-country institutions.

Finally, company values interact not only with the MNC's profit interest, but also with local conditions. A tight value system in an MNC can create tensions in the implementation of these values, especially if MNC values clash with host-country work standards. To avoid such tension, Multico's value of local responsiveness is operationalized through selecting local managers who run the subsidiaries' work affairs autonomously but in line with corporate values. This way, Multico is able to combine corporate paternalism with purposeful local responsiveness and utilize the enabling effect of host-country institutions in constructing subsidiary work practices. Consequently, corporate paternalism is maintained but acquires different meanings across different host countries, and leads to selective diffusion and adaptation of subsidiary work practices to local conditions.

Conclusions

This paper provided empirical evidence on soft work practices (work systems and fringe benefits) across Western and CEE subsidiaries of a Dutch MNC. Acknowledging institutional variation in labour laws, industrial relations and working standards across the host countries, the paper's aim is to understand how the MNC's profit interest, company values, and institutional characteristics in the host countries interact in shaping similarities and differences in soft work practices across the studied subsidiaries and host countries.

Despite being located in different countries, all subsidiaries fit a delegated responsibility work system with elements of paternalism, combining managerial control in work organisation with an open relationship towards workers and generous fringe benefits exceeding local standards (particularly in CEE). Cross-subsidiary differences in work practices apply mainly to financial employee motivation, which tends to follow local standards.

Implementation of soft work practices is not coordinated across the MNC but responsive to local conditions. In those aspects of work practices where MNC interest is independent from local conditions, or local conditions are similar and therefore enable the adoption of best practices, the MNC has opted for similar work practices across the subsidiaries. However, in work practices where local conditions are expected to play an important role for the company's profit, the MNC has actively utilized local differences to construct subsidiary-specific practices. Thus, documented work systems and fringe benefits resemble a mixture of corporate best practices and MNC responsiveness (not necessarily forced adaptation) to work standards across Western and CEE host countries.

The main argument that this paper tried to put forward is that *interaction* between the profit interest, moral values and host-country institutions is central in understanding the construction of work practices and their cross-subsidiary similarities and differences. The means of achieving profits are endogenous and informed by company values, responsiveness to workers' interests in different countries and the MNC's ability to benefit from differing host-country conditions. Values shape the MNC's perception on rational behaviour and on the feasible profit-making strategy in particular subsidiary environments. Thus, the MNC's rational behaviour, producing similarities and differences in work practices, is contextualized in local institutional conditions, as well as it is informed by company values. Different local conditions are used as a resource for securing profits through efficient production, and for developing concrete meanings of MNC values in particular subsidiary conditions. Such interaction yields subsidiary work practices that are neither fully standardized across the subsidiaries, nor extensively adapted to local work standards. Instead, soft work practices are embedded in, but only selectively adapted to, host-country standards.

The main shortcoming of this paper is its case study based evidence. More research needs to be conducted across several MNCs and their Western European and CEE subsidiaries in order to generalize the paper's findings. Such broader research would allow questioning how the interactive process between organizational and institutional factors in accounting for work practices is informed by another variable, namely, the institutional effects of the MNCs' home countries (Ferner/Quintanilla 1998).

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Annex

Table A.1: Work organization in Multico subsidiaries

	MBE	MFR	MPL	MHU
Workforce composition	Two thirds of production workers are women, because being more adept at plugging and screwing; Permanent and temporary (agency) workers form separate production teams	High share of women in general, and even higher among production workers; Temporary workers either integrated with permanent workers or teams of temporary workers only[2]	Women constitute half of the production workforce; Temporary workers integrated with permanent workers in production teams	70 to 80 percent of production workers are women;[3] Permanent, temporary and agency workers form joint production teams.
Production lines structure	Two assembly lines in two shifts over five days per week; Supervision by line coordinators and a group leader; Group leader responsibility[4]: allocating skill-specific tasks and seats to workers	Several assembly lines in two shifts over 5 days per week; Supervision by line coordinators	Production workers allocated in five production lines; work in three shifts over five to seven days per week[5]	Production divided into three operations areas, work organization within divisions resembles other subsidiaries, working in 3-4 shifts over 7 days/week Worker teams of 45-70 persons supervised by instructors (responsible for rotation) and shift leaders (overlooking two-three production lines)

2 Managers try to maintain established teams of workers.

3 Experience has shown that women are more suitable for the given working conditions. In contrast to other subsidiaries, the factory only has a few sitting jobs in production; and the majority of workers perform their job in a standing position.

4 Other responsibilities of the group leaders include solving disciplinary issues before escalating them to the HRM department, granting workers' holiday request, or handling workers' dissatisfaction.

5 Seasonal workers work as one group per line. Permanent workers form smaller teams, or mini-companies. One production line consists of five mini-companies in which tasks are similar, i.e., the assembling team, adjustment team, or the quality checking team. The small management team is integrated with other employees.

	MBE	MFR	MPL	MHU
Workplace rotation and task fragmentation	Managers decide who rotates where and how often; Rotation highly encouraged to decrease repetitive tasks; Task fragmentation low; given the frequent change in produced models workers have developed multiple abilities	Managers determine which tasks and under what conditions workers perform; Work tasks fragmented, but workers perform a variety of tasks and rotate frequently to decrease the monotony of work and overall task fragmentation	Particular tasks fragmented, but workers encouraged to perform multiple tasks; overall task fragmentation is low; Rotation highly encouraged	High task fragmentation[6], low worker discretion, extensive managerial control over work organization; Routine work more encouraged than frequent rotation (for the sake of productivity); Management encourages multi-skilled permanent workers and organizes regular training sessions.
Management-worker interaction and worker discretion	Flat hierarchies, informal interaction; High discretion; managers seek feedback from workers with first-hand experience to suggest task improvements; Extensive worker involvement in defining work content for mass production	Interaction more formal than in other subsidiaries (following local standards in workplace communication); High discretion: workers participate in quality improvement teams and suggest improvement procedures	Flat hierarchies, informal interaction prevails (after initial agreement, in line with local standards); Low managerial control and high task discretion; upon informing the direct supervisor workers can freely rotate within their team	Informal interaction at the workplace (following local standards); Managers not strictly segmented from workers
Type of reward	Almost exclusively non-financial reward (non-financial performance appraisal)	Both financial and non-financial rewards (non-financial performance appraisal and financial performance pay)	Non-financial performance appraisal closely related to individual financial rewards; Management fosters competition between workers to increase productivity	Non-financial performance appraisal closely related to individual financial rewards; Competition between teams and individuals is strongly encouraged
Reward allocation principle	Collective distribution of rewards	Collective rewards supplemented by some individual performance-based rewards: workers with satisfactory performance have a higher chance for stable or regular employment	Financial rewards (performance pay) distributed according to short-term and long-term personal performance, but also the performance of teams, production lines and the whole factory	Financial rewards (performance pay) allocated according to individual and team performance

Source: adopted from Kahancová (2010)

6 During a working day, workers are assigned to a particular seat and remain there for the whole shift and even longer – as long as the number and structure of groups do not change.

Table A.2: Performance rewards and performance pay in Multico subsidiaries

Subsidiary	Existing performance reward (non-financial)	Type of performance reward	Performance pay (financial)	Type of performance pay	Frequency of performance pay	Trade union involvement
MBE	Yes; unrelated to wage	Personal; group leaders	No	N/a	N/a	Yes (negotiated agreement)
MFR	Yes; related to wage	Personal; group leaders	Yes	Individual and collective (13th month's wage, annual wage increase)	Annual	Only in collective wage increase
MPL	Yes; related to wage	Personal; group leaders	Yes	Individual and collective (15% of wage: 9% individual, 6% team performance)	Monthly	Only in collective wage increase
MHU	Yes; related to wage	Factory system with predefined points	Yes	Individual and collective (15% of wage: 10% output, 5% quality)	Monthly	Only in collective wage increase

Source: adopted from Kahancová (2010)

Table A.3: Fringe benefits in Multico subsidiaries

Benefit description	MBE	MFR	MPL	MHU
New Year's day breakfast, lunch or drink	✓	✓		
Recognition of workers' personal achievements (i.e. additional diploma or certificate in areas of personal interest)		✓		
Santa Claus event (and gifts for workers and/or for their children)	✓		✓	✓
Women's day event (flowers for female workers)			✓	
Christmas presents, also for temporary workers	✓		✓	✓
Integration and team-building parties, sponsored team trips			✓	✓
"Discovery day", open day for visitors (workers' families, potential recruits)	✓		✓	
Long-service recognition, i.e. upon retirement (MBE: TV sets,[7] MFR: work medal, MHU: thank-you note, refreshments)	✓	✓		✓
Volunteer firemen recognition day		✓		
Medical care services (MHU), extra-legal medical insurance (MFR)		✓		✓
Sickness supplement, income supplement in the event of death	✓			✓
Multico-sponsored insurance for non-work-related accidents	✓			
Psychologist (2 days/week)		✓		
Loans with 0% interest (MFR), housing loans (MHU)		✓		✓
Personnel shop or discount vouchers for Multico products	✓	✓	✓	✓
Soccer and cinema tickets (MBE), holiday checks (MHU)	✓			✓
Frequent competitions and drawings to win Multico products				✓
Multico-sponsored summer outdoor social and cultural events for workers and their families			✓	✓
Free parking for workers (in MBE, a union-stipulated walking bonus for parking in distant parking places)	✓	✓		
Contracted bus service for workers (MHU), agreement with public transport authority to adjust bus schedules to Multico's shifts (MPL)			✓	✓

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