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Embedding Multinationals in Postsocialist Host Countries
Social Interaction and the Compatibility of Organizational
Interests with Host-Country Institutions

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Marta Kahancová is a researcher at the Max Planck Institute for the Study of Societies.
kahancova@mpifg.de

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Max-Planck-Institut für Gesellschaftsforschung
Max Planck Institute for the Study of Societies
Paulstr. 3 | 50676 Cologne | Germany

Tel. +49 221 2767-0
Fax +49 221 2767-555

www.mpifg.de
info@mpifg.de

Abstract

The internationalization of postsocialist countries brought about by the activities of multinational corporations (MNCs) has produced a growing diversity of actors capable of shaping work standards in these countries. The organizational and institutionalist literature on MNCs has concentrated only on the outcomes of such internationalization processes in terms of diffusing MNCs' organizational practices or adapting them to host-country conditions. This paper offers a theoretical and empirical scrutiny of the *process* through which MNCs establish and reinforce their position in host-country labor markets and societies. In particular, the focus is on how MNCs become legitimate actors in changing work standards in host-country labor markets, and how host-country actors (i.e., workers, trade unions, and the local society) become capable of shaping MNCs' organizational practices in postsocialist subsidiaries. This process is referred to as MNC embedding.

Building on a qualitative case study of a Dutch MNC and its subsidiaries in Hungary and Poland, the paper theorizes and empirically documents how embedding occurs and what conditions facilitate it. It is argued that particular interaction dynamics in each MNC subsidiary studied account for the extent to which MNC embedding occurs via unilateral managerial decisions or with the involvement of local actors. Moreover, social interaction between MNCs and host-country actors facilitates institution building from below. This means that through social interaction MNCs become legitimate actors contributing to institution building in environments where broader institutional underpinnings of work practices and traditions of collective bargaining are less extensive than in continental Western Europe.

Zusammenfassung

Die Aktivitäten multinationaler Unternehmen forcieren die wirtschaftliche Internationalisierung postsozialistischer Länder. Hierdurch wächst in diesen Ländern die Vielfalt an Akteuren, die in der Lage sind, Arbeitsstandards zu entwickeln. Die organisationssoziologische und institutionalistisch orientierte Literatur zum Thema hat sich vor allem mit den Auswirkungen von Internationalisierungsprozessen auf die Verbreitung organisatorischer Praktiken der Unternehmen oder ihrer Anpassung an die Bedingungen des Aufnahmelandes beschäftigt. Dieses Papier bietet nunmehr eine theoretische und empirische Untersuchung der Prozesse, durch die multinationale Konzerne ihre Position im Arbeitsmarkt und in der Gesellschaft des Aufnahmelandes finden und festigen. Das Hauptinteresse liegt auf der Frage, wie multinationale Unternehmen zu legitimen Akteuren werden, die Arbeitsstandards in postsozialistischen Beschäftigungsmärkten verändern können und wie die Akteure des Aufnahmelandes (Arbeiter, Gewerkschaften und die lokale Bevölkerung) in die Lage versetzt werden, die Praktiken dieser Unternehmen mitzugestalten. Dies wird als Prozess der Einbettung multinationaler Unternehmen gedeutet.

Anhand einer qualitativen Fallstudie zu einem niederländischen Konzern und seinen Niederlassungen in Ungarn und Polen analysiert das Papier, wie es zu einer solchen Einbettung kommt und welchen Bedingungen sie unterliegt. Die Analyse zeigt, dass bestimmte Interaktionsdynamiken in allen untersuchten Niederlassungen auf unilaterale Managemententscheidungen oder die Einbeziehung lokaler Akteure zurückzuführen sind. Darüber hinaus erleichtert die soziale Interaktion zwischen Unternehmen und lokalen Akteuren die Institutionenbildung von der Basis aufwärts. Im Ergebnis werden multinationale Unternehmen durch soziale Interaktionen vor Ort zu legitimen Akteuren, die zur Institutionenbildung in einem Umfeld beitragen, in dem die Verankerung von Arbeitsstandards und Traditionen der Mitbestimmung weniger verbreitet ist als im Westen Kontinentaleuropas.

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Introduction

After the fall of state socialism, countries in Central and Eastern Europe (CEE) experienced a significant internationalization of their economies. An increased inflow of foreign investors, including multinational companies (MNCs), brought a range of new employment opportunities to the region (UNCTAD 2007). In consequence, the diversity of organizational practices at workplaces in Central and Eastern Europe, e.g. working time organization, flexibility, motivation of employees, and hiring and firing procedures, has been growing. Some MNCs provide working conditions that exceed local standards, while other firms seemingly want to benefit from loose regulations and cheap labor in CEE countries (Bohle/Greskovits 2006; Schiffer 1996).

The internationalization of the economy through MNCs has not only stimulated a growing variation in organizational practices, but also fueled a growing diversity of actors capable of shaping and challenging work standards in the labor markets of postsocialist countries. This raises the question of how foreign actors, in particular MNCs, become capable of shaping work norms, and how local actors become capable of shaping MNCs' organizational practices in CEE subsidiaries. In other words, the question posed above can be reformulated as understanding MNC *embedding* – the process through which MNCs establish and reinforce their position in host-country labor markets and societies.

This paper offers a theoretical and empirical inquiry into the process of MNC embedding. In particular, I seek to answer two questions. The first one aims at theoretically understanding how MNC embedding occurs, and how the theoretical logic helps elucidate the actual embedding process in postsocialist countries. Instead of studying the mode through which MNCs initially made their investments in CEE host countries, I explore ongoing micro-level interaction between MNCs and relevant local actors after years of subsidiary operation. As will be explained later, social interaction between MNCs and local actors is at the core of the embedding process. To support the first question, the paper's second question aims at uncovering the conditions facilitating MNC embedding. In particular, I analyze the compatibility of influences that originate in the large transnational organizational entity like an MNC, on the one hand, and in the host-country environment and its actors, on the other.

An economic perspective on MNC embedding suggests that MNCs interact with local actors in relation to their economic interest and utilization of host-country institutions, in order to directly achieve profitability. MNCs are thus expected to adopt best work practices that have proved to be efficient elsewhere and are feasible for securing the firm's profitability. In consequence, MNC embedding in host countries is likely to oc-

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cur through instrumental market-like relationships with local actors, in which institutions and the social structure serve merely as a context for economic behavior (Bandelj 2008b). From this position, MNCs may become legitimate actors involved in shaping general work standards by means of competitive work practices, which serve as benchmarks for local employers.

In contrast to the above economic logic, this paper adopts a sociological perspective to argue that MNC embedding in host-country societies is a socially constituted process. The social constitution of embedding does not fundamentally conflict with the firms' profit aspirations and thus the economic perspective. Rather, it draws attention to the complex way in which actors' decisions take place beyond limited, profit-driven considerations. In numerous decisions concerning which work practices to adopt and how to shape local standards, repeated patterns of social interaction between MNCs and host-country actors extend beyond pure economic issues and serve as a broader channel for MNCs to develop local influence. In other words, embedding does not only occur within the purely economic context of market competition, and the economic behavior of MNCs is influenced by factors outside the economy as well.

An empirical underpinning of the analysis derives from a comparative case study of the behavior of a Dutch industrial MNC, and its interaction with host-country actors¹ in the firm's Hungarian and Polish subsidiaries. The paper is confined to a theoretical and empirical scrutiny of the social interaction process between the MNC and host-country actors relevant for the construction of work practices in MNC subsidiaries. Adopted work practices are thus viewed as one of the particular outcomes of MNC embedding.

Two arguments are developed. First, different forms of social interaction represent different paths of MNC embedding. Particular interaction dynamics between the MNC and local actors in the Hungarian and Polish subsidiaries account for the boundaries between two particular embedding paths. The first one is MNC embedding and the construction of subsidiary work practices via unilateral managerial decisions. The second one is embedding with the direct involvement of local labor market actors. Both of these embedding paths consider the MNC's economic interest and the social and institutional influences constituting MNC behavior. In other words, in both paths the MNC's economic behavior is socially constructed. However, the two paths diverge on the role of particular actors in the embedding process. In the former, unilateral path, the steering of the embedding process remains within the organizational boundaries of the MNC. In the latter, interactive path, embedding occurs through greater involvement of local actors. The conditions influencing and facilitating MNC embedding, in particular through the participation of local actors, demand compatibility between several resources: the MNC's corporate values and profit interest, host-country institutions, the interests of local actors, and trust between MNCs and locals.

1 That is, employees, trade unions, employee representatives, and local authorities.

The second argument is that social interaction allows MNCs to benefit from local institutional resources. Therefore, MNCs become institutional *rule-takers* in the host countries (Streeck/Thelen 2005). At the same time, interaction creates space for the MNC to become a legitimate actor contributing to institution building in host-country labor markets, or an institutional *rule-maker*. Social interaction between MNCs and local actors thus facilitates institution building at the micro level in postsocialist countries that lack extensive legal or collective regulation of work issues at the macro level.

The paper is structured as follows. In the first section, I outline the theoretical framework for embedding. The second section introduces the case study and research methods. In the third section, evidence on social interaction in the Hungarian and Polish cases is presented and analyzed. The fourth section examines conditions of social interaction, in particular the compatibility of organizational interests with institutional conditions in CEE host countries. In the fifth section, I seek to uncover the implications of social interaction between MNCs and local actors for institution building in CEE countries. Section six presents my conclusions.

1 A theoretical framework for embedding

Because of their ability to draw on multiple resources and operate simultaneously in differing host-country environments, MNCs represent the organizational face of the internationalization and transmission of work practices across borders (Geppert/Mayer 2006; Rubery/Grimshaw 2003). In the embedding process, MNCs evaluate their corporate interests relative to economic, social, and institutional conditions existing in the host countries. Next to the firm's economic interest, the social, cultural, and institutional conditions in the host countries shape the way in which MNCs interact with host-country actors, negotiate and deploy their subsidiary work practices, and develop a legitimate role in shaping host-country work standards (Ferner/Quintanilla/Sánchez-Runde 2006; Maurice/Sorge 2000; Michailova 2003). Therefore, the social, cultural, and institutional conditions of host countries are important enablers of MNC embedding there.

Current comparative institutionalist literature on MNCs recognizes the influence of host-country forces on MNC economic behavior (Maurice/Sorge 2000; Michailova 2003; Rosenzweig/Nohria 1994; Rubery/Grimshaw 2003). Among the recognized influences are government policies and institutional pressures that coerce MNCs to imitate practices that are common in local companies (Bandelj 2008b; Ferner/Quintanilla 1998; Guillén 2000; Zukin/DiMaggio 1990). It is argued that, due to diverse influences, MNCs may diffuse work practices across a number of subsidiaries, adapt to host-country standards by imitating practices of other locally established firms, produce reverse diffusion from host countries to home-country subsidiaries, or attempt to hybridize subsidiary

work practices by combining the best of home and host-country influences (Boyer et al. 1998; Edwards 1998; Ferner/Varul 2000; Tüselmann/McDonald/Heise 2003).

Despite the literature's contribution to understanding the expected and real *outcomes* of MNC embedding, little is known about the embedding process itself. Within economic influences, politics, culture, and institutions, the relevant theoretical challenge shifts from questioning whether MNCs are embedded to understanding how MNC embedding occurs. Assuming that economic actors are associated with and influence one another (Swedberg/Smelser 2005), two theoretical logics apply to the embedding process. The first one is embedding as unilateral managerial action and competition-driven interaction with host-country actors. The second logic is embedding as a relational social process, shaped simultaneously by various social forces and host-country actors (Bandelj 2008b). These two logics imply a different kind of interaction between MNCs and local actors, or the embedding processes, in constructing work practices and work standards that are seen as the outcomes of embedding.

The first perspective assumes rational economic action on the part of MNCs, which decide a priori what the best organizational practices are and diffuse them across several subsidiaries in different host countries. MNC interaction with host-country actors is driven by an effort to maximize profit. In consequence, MNCs become embedded in host-country societies predominantly through competition-driven arm's length interaction with host-country labor market actors. The interaction develops around accommodating MNCs' best organizational practices, imported from foreign subsidiaries, into the specific social and institutional situation of host-country labor markets. Despite the fact that MNC embedding is assumed to occur through a genuine market type of interaction with host-country actors,² this interaction is not isolated from the influence of host-country social forces that are non-economic in nature (i.e. social networks, host country institutions, political and cultural considerations). However, according to this perspective, the effect of social forces is perceived only as a context constraining the MNCs' rational instrumentalist behavior (Bandelj 2008b: 170).

In contrast to the above logic based on rational calculations of costs and benefits, the second perspective on embedding sees host-country social forces, i.e. social networks, institutions, and culture, as constitutive of the embedding process (Zukin/DiMaggio 1990). In this view, MNCs do not necessarily see the influence of social forces as curbing their profit aspirations. Instead, through social interaction with local actors, the firms seek to utilize local social forces in order to become an active part of the host country's social structure. Therefore, MNC embedding in host-country societies is a socially constituted process, which helps us understand the emergence of stable markets and work norms (c. f. Fligstein 1996). Seeking embeddedness with the help of local social forces

2 A market type of social interaction is used interchangeably with a competition type of interaction. Both are based on short-term arm's length interactions, without any longer commitment to joint goals on the part of the actors involved other than for profit-making reasons.

may not be in conflict with the firm's profit aspirations, but rather determines a kind of social interaction between MNCs and local actors that is different from the one that would result from taking a narrowly economic perspective.

Economic sociology has articulated that economic actors' market behavior is in fact social behavior, and that an encompassing sociological perspective is necessary to understand economic action (Bandelj 2008b; Fligstein 1996; Granovetter 2005). Applying this reasoning to MNC embedding, I argue that the latter, sociological, perspective better reflects the complex reality of organizational decision-making vis-à-vis host-country conditions. Thus, in this paper, I use a sociological framework emphasizing in particular the notion that social interaction between MNCs and host-country actors, as a multifaceted network of social relations, constitutes MNC embedding. The social relations involved are not limited to profit-making on the part of MNCs, but involve interactions that relate both to market and non-market types of relations. In this respect, the process of MNC embedding through social interaction with host-country actors corresponds to an embedded perspective on economic action, situated between an undersocialized and oversocialized perspective on firm behavior (Granovetter 1985).

To further justify the use of the sociological framework, we need to elaborate the reasons why MNCs seek social interaction with host-country actors. Two broadly acknowledged reasons relate to embedding. First, in line with organizational resource dependence theory, MNCs seek to utilize host-country institutions and actors to obtain new resources (Cook 1977; Pfeffer/Salancik 1978). This is important, since the supplies of resources are not stable and environments change. Therefore, to achieve their goals, firms seek capacities to influence host-country actors from whom resources are acquired (Pfeffer 1992: 38). The motive to acquire local resources is closely related to the second reason, which is to combat the uncertainty associated with host-country conditions and actors' behavior. Uncertainty can be reformulated as a situation of double contingency in which actors do not know what is best to do, and therefore their actions are reciprocally dependent on each other (Beckert 1996: 805). The available literature distinguishes between three kinds of uncertainty.³ First, substantive uncertainty refers to a lack of information on host countries required by MNCs to make decisions or predict their outcomes (Dosi/Egidi 1991; Troy/Werle 2008). Second, procedural uncertainty relates to cognitive constraints or a competence gap on the part of MNCs that limits their ability to pursue their desired interests (Dosi/Egidi 1991). Finally, strategic uncertainty refers to incomplete information on the strategies and behavior of host-country actors in response to MNC behavior (Iida 1993; Troy/Werle 2008). Overall, MNCs face a high degree of uncertainty in host countries because they lack local knowledge, cannot anticipate the outcome of certain decisions or actors' behavior, or cannot assign probabilities to the outcome (Beckert 1996: 804). To overcome this, they seek social interaction in given institutional, social, and cultural conditions. Therefore, social interaction

3 The distinction between different uncertainties serves the analytical purpose of justifying the paper's focus on social interaction. A study of uncertainty itself is beyond the scope of this paper.

with host-country actors is an integral part of how MNCs handle their organizational practices in foreign subsidiaries and how they embed among host-country labor market actors (Bandelj 2008b; Zukin/DiMaggio 1990). Moreover, a focus on social interaction helps to overcome the implicit assumption of the unitary character of managerial action found in the MNC literature by allowing an assessment to be made of local actor influence on MNC embedding and its outcomes.

Addressing uncertainty is particularly relevant in postsocialist CEE countries, because cultural conceptions of work practices, conditions for doing business, and practices of employing people in Central and Eastern Europe differ from Western European countries – the home countries of most MNCs with subsidiaries in the CEE area.⁴ Postsocialist countries tend to exhibit some degree of institutional intransparency; compared to Western European countries, for example, they often lack collective regulation of labor issues and work practices. In these circumstances, MNCs may appreciate local knowledge of business and employment relations, informal norms, and the interests of host-country actors, which they obtain through social interaction.

Having established the role of social interaction in MNC embedding, I now turn to the elaboration of concepts that constitute the paper's theoretical framework. I start with identifying actors and the attributes of their behavior. Next, I conceptualize social interaction and expected interaction forms under the influence of firm interests, values, and host-country social forces. Finally, I elaborate expectations of how different forms of social interaction denote different means of MNC embedding.

Actors and their attributes

MNCs as multi-divisional corporate actors incorporate a heterogeneity of organizational interests and are not limited to a single goal of profitability (Scott 2000; Grandori 1987; Phelan/Lewin 2000; Turner 1991). The structure of interests and the nature of internal divisions can directly influence company strategies and has an indirect impact on the preferences and strategies of host-country actors that engage in social interaction with MNCs (c. f. Avdagic/Rhodes/Visser 2005: 15). For example, the strategies of local trade unions can differ when unions face an MNC with a clear set of coherent interests throughout its subsidiaries, or an MNC with ad hoc strategies that are formed or concretized predominantly at the subsidiary level.

Next, the economic behavior of MNCs cannot be isolated from company culture or from internal moral values and orientations (Scharpf 1997). Company values are broad

4 Using the World Investment Report, Bandelj (2008b: 106–109) lists investors in CEE countries by country of origin. Western European investors have invested in the CEE region to the greatest extent. In Hungary and Poland, German and Dutch investors occupy the top spots.

tendencies to prefer certain states of affairs over others (Hofstede 1981) formed in a path-dependent legacy of organizational procedure, or administrative heritage (Bartlett/Ghoshal 2002). They shape company preferences for specific work practices in specific host-country conditions. Values can therefore account, regardless of the company's genuine profit interests, for both the way an MNC interacts with host-country actors, and its willingness to engage host-country actors in its decisions on work practices.⁵ It will be argued later that company values are indeed crucial for the kind of interaction observed in the case study between the MNC and host-country actors in Hungary and Poland.

MNC behavior is also greatly influenced by societal and institutional effects (Bandelj 2008a; Dequech 2003; Ferner 1997; Maurice/Sorge 2000; Uzzi 1996). I stress two ways in which societal and institutional factors constitute MNC embedding. First, the society concerned imposes normative institutional constraints and creates maneuvering space for rational behavior (Scharpf 1997; Streeck 1997; Tempel/Wächter/Walgenbach 2006). The MNC embeds itself in this institutional space in order to find the optimal way of functioning under given conditions (Maurice/Sorge 2000; Sellier 2000). In consequence, MNCs are obliged to respect the statutory labor regulations or to practice collective bargaining if legally stipulated. The second effect is that the exposure of MNCs to local actors leads to an exchange of values and emerging trust, which fuels social interaction even beyond imposed constraints and formal institutional spaces. Social interaction taking place in daily informal settings may foster commitment to joint agreements and the emergence of informal institutions. Such agreements are often enacted through social engagements beyond the formal institutional framework (Krippner et al. 2004). Voluntary commitments achieved through social interaction are maintained for reasons of legitimacy, uncertainty, or hidden costs in case of non-compliance.

Host-country actors with whom the MNC interacts in its embedding process do not directly take part in constructing subsidiary work practices, but are important for setting norms and benchmarks of appropriate behavior in particular conditions. In this paper I focus on those corporate/collective actors that are involved in shaping work practices in general and in MNC subsidiaries in particular. These include the MNC's subsidiary management as well as trade unions, employees, labor market organizations in host cities, and public authorities. The latter group of actors is referred to as local actors. Understanding the relationship of MNCs with these actors also helps to see corporate interests and behavior in broader social settings of the host country.

5 An alternative to this behavior is to leave host-country actors out of the organization's boundaries and to develop a more exploitative and market-like employment relationship and practice (Pfeffer 2006; Williamson 1975).

Social interaction

Actors' behavior, informed by the diverse influences discussed above, encounters other actors' behavior in social interaction. Interaction can be broadly defined as a repeated situation where the behavior of one actor is shaped by, and influences the behavior of, another actor and vice versa (Turner 1988: 13–14; Weber 1978). Social interaction can neither be separated from the actors' own attributes nor from institutional conditions in which interaction takes place (Scharpf 1997).

The understanding of social interaction in this paper applies to organizations rather than individual actors. Therefore, I refrain from examining actions like signaling, sense-making, frame-making, or ritual-making, which are inherent features of the theory of social interaction applied to individuals (Turner 1988: 102–117). This theory is valuable, however, in rethinking interaction features applicable to organizations. In consequence, my understanding of social interaction lies between a strict micro perspective, as noted above, and a macro perspective limited to obligatory encounters of MNCs with host-country actors because of formal institutional requirements (i.e. collective bargaining). In particular, I assume that a formal social structure between the MNC and local actors co-exists with informal relations. Daily interaction between managers and representatives of employees, trade unions, and local authorities is equally important for MNC embedding – both for the work practices of MNCs and for MNC influence on local work standards (Whitley 1999). Even when work practices tend to be regulated by formalized institutions (i.e. labor law and written employment contracts), trust is important in everyday interactions between workers, managers, and trade unions because it may facilitate work practices beyond formal rules or practices that differ from actors' original intentions (Fox 1974). Thus, both formal and informal social interaction matters for MNC embedding and its outcomes in the form of work practices in subsidiaries.

Building on the notion that social interaction constitutes MNC embedding, the next logical step is to theorize how social interaction occurs. It is assumed that interaction can take various forms and thus affect actor behavior and MNC embedding differently. For an analytical distinction of interaction forms, I draw on existing literature that has conceptualized four interaction forms (Netherlands Bureau for Economic Policy Analysis 1997), including control, competition, value-based cooperation, and interactive bargaining. These interaction forms do not distinguish MNC behavior as embedded or not. Rather, they relate to different actor conceptions of control over the embedding process (c. f. Fligstein 1996) and serve as analytical guidelines for the paper's empirical section. In reality, several forms of interaction can simultaneously emerge between MNCs and local actors. As the strength of different forms may vary, I aim to identify the dominant interaction form for MNC interaction with different host-country actors (Kahancová/Meer 2006).

Interaction in the form of control entails the economic or legal power of an actor to make decisions and impose them on others (Netherlands Bureau for Economic Policy

Analysis 1997: 57). In interaction between MNCs and host-country actors, control is associated with the enforcement of MNCs' corporate interests and the diffusion of best organizational practices, regardless of the social environment and interests of local actors. The MNC strives to leave external actors out of its organizational boundaries and to maintain control over its specific decisions on work practices and its involvement in the host country's social structure (Pfeffer 2006; Williamson 1975). An important aspect of control is power asymmetry, with MNCs having great power to make and execute decisions on which local actors have little or no impact.

The second interaction form considered is *competition*, entailing rivalry between actors that strive for resources and goals that not everyone can obtain (Netherlands Bureau for Economic Policy Analysis 1997: 56). In this interaction form, actors are equally endowed with power, and therefore one of them (i.e. the MNC) cannot impose its interests on the other actors (i.e. host-country locals). Competition can be found between actors at the same level of hierarchy, and between those not directly and extensively dependent on each other's resources. Competing actors are willing to compromise over issues of common interest at the price of threats and large concessions. Competition can lead to an identification of feasible work practices and their efficient allocation. However, in competing, MNCs are not committed to the interest of locals (and vice versa); all actors only attempt to pursue what they believe to be their own rational interest. This leads to decreased trust and less commitment to mutual agreements, and prevents MNC embedding with any serious cooperative involvement of local actors.

Cooperation based on shared values and norms, the third social interaction form, develops on the basis of a congruent set of preferences between MNCs and local actors (Netherlands Bureau for Economic Policy Analysis 1997: 57). Actors are motivated and committed to sharing values and a common interest, which may or may not be in alignment with the profit aspirations of the MNC. Value-based cooperation is vulnerable to quick failure when actors start to prefer individual rational egoism. Therefore, actors' trust, voluntary commitment, and conscious self-enforcement, even in a situation without external norms, are central for maintaining this form of social interaction (c. f. Greif 2006; Greif/Milgrom/Weingast 1995). MNCs that prefer value-based cooperation believe that engaging host-country actors in the embedding process is better than learning the rules of the foreign environment alone. Organizational values, culture, and moral considerations underpin the actors' preference for value-based cooperation. Therefore, this form of interaction is not merely the result of an opportunistic decision to yield higher profits than those provided by alternative forms of interaction. Even if the interests of the MNC and the local actors differ on structural issues, actors can develop value-based cooperation because they have similar interests, i.e. a commitment to ethical behavior and socially acceptable work practices.

The final form of social interaction is *interactive bargaining*, which involves consultation between actors with different interests (Netherlands Bureau for Economic Policy Analysis 1997: 58). Actors are informed about and responsive to each other's interests

regardless of their power relations. They are motivated to stay alert and innovative and to exploit existing opportunities in order to achieve their goals and obtain the desired resources. Interactive bargaining may well be observed in workplace industrial relations in MNC subsidiaries, especially in cases of bargained or informally settled deals between employers and trade unions. In contrast to interaction in the form of competition, bargaining leads to compromises, concessions, and satisfactory outcomes of interaction (Cappelli 1985). In analytical terms, interactive bargaining has a distributive and an integrative element (c. f. Avdagic/Rhodes/Visser 2005; Walton/McKersie 1965). Distributive bargaining implies compromises and trade-offs between actors regarding the overall distribution of benefits from agreed behavior and outcomes. In this case, interaction may incorporate greater power differences and larger compromises. In integrative bargaining, actors strive for an outcome that makes everyone better off. Compromises are reached with fewer difficulties than in distributive bargaining.

Social interaction forms as means of MNC embedding

What kind of expectations regarding MNC embedding can we derive from the interaction forms described above? Each interaction form may affect the behavior of the actors involved, and thus the MNC's embedding, differently. When interaction between the MNC and local actors evolves predominantly in the form of control, the MNC has less of a need to consult or negotiate its practices with local actors. Even when facing uncertainty, the MNC will define the goals it is seeking to achieve in the host country (i.e. its own position in the local labor market relative to given opportunities and constraints, and the specific work practices to be deployed in subsidiaries) and will attempt to reach these unilaterally. Thus, MNC embedding is predominantly a unilateral process to which local actors do not have direct extensive access. Given the limited encounters with local actors, the MNC is free to decide whether it aims to build a strong local presence and commitment to the investment location. Conflicts, compromises, trust, and value sharing do not develop to the same extent as in other forms of interaction.

In case of interaction in the form of competition, MNC embedding is likely to occur with a greater involvement of local actors. Given the fundamentally different interests but comparable power resources of locals and MNCs, local actors can hinder unilateral MNC-determined embedding. Conflicts, threats, trade-offs, and lack of trust between the MNC and local actors are expected to be inherent features of embedding, in particular in bargaining over work practices.

In contrast to control and competition, value-based interaction yields fewer conflicts and less dominance because there is an established shared opinion and moral conviction on issues of joint interest. In this case, the MNC is expected to benefit from local knowledge and the resources of local actors. The ongoing interaction, both formal and informal, accordingly accounts for the incremental embedding of the MNC in the social

structure of local actors. Moreover, during the embedding process, informal institutions may emerge due to trust and cooperation between the firm and the locals. These may gradually modify the established rules on work standards and thus contribute to an actor-driven institutional change from below.

Finally, interactive bargaining may characterize two options within a bargained process of embedding. The first option is distributive bargaining, where the MNC and local actors undergo tough negotiations before a compromise on work practices is reached. The second option is integrative bargaining, where actors are committed to negotiate such work practices that make both the MNC and local actors well off in terms of addressing their interests (Walton/McKersie 1965). The final embedding process is contingent on actors' attributes (i.e. organizational culture, values, economic interest), their willingness to accommodate additional commitments and compromises in their original goals, or a lack of any initial goals whatsoever. Whatever the case, the MNC may benefit from the knowledge of host-country actors in overcoming uncertainty to become one of the relevant players in host-country labor markets. But the extent to which local actors are involved in MNC decisions and practices can vary. Given the variety of possible outcomes, an empirical underpinning is essential to formulate conclusions on interactive bargaining and MNC embedding.

To summarize, the theoretical framework maintains that social interaction between MNCs and host-country actors constitutes MNC embedding. Through social interaction, MNCs encounter host-country actors and institutions that help them to combat uncertainty and acquire new resources. In addition, through social interaction, MNCs become embedded in the host country's labor market and influence local work standards. Interaction may thus lead to incremental institution building or micro-level institutional change. Building on this analytical framework, the next sections provide an empirical underpinning of MNC embedding. I examine embedding by exploring forms of interaction between a case-study MNC and local actors in two host countries, Hungary and Poland. In terms of the content of embedding and related social interaction, I focus on how work practices in the MNC's Hungarian and Polish subsidiaries are constructed through the actors involved, and how the MNC's presence and subsidiary work practices help shape local standards in work practices.

2 Case study and research methodology

The empirical part of the paper draws on a comparative case study of a single MNC and its two subsidiaries, one in Hungary and one in Poland. The chosen qualitative comparative approach is valid for two reasons. First, it allows an analysis of the embedding process to be made through a set of interrelated phenomena in controlled organizational settings (c.f. Boxall 1993; Dyer 1984; Edwards/Colling/Ferner 2007; Truss et al. 1997).

Second, the chosen methodology is feasible for studying how host-country conditions inform actors' behavior, social interaction, and embedding.

The company studied (hereafter referred to by the pseudonym Multico) is a leading Dutch MNC in electronics, lighting, and medical equipment. Multico was established in the late nineteenth century as a small family light-bulb business. In the past, the firm operated as a decentralized entity with a portfolio of independent businesses that aimed at exploiting local conditions (Bartlett/Ghoshal 2002). However, the past 20 years have shifted the company's organization toward a more integrated structure, with strengthened ties between formerly independent organizational units.

Multico has been operating a number of subsidiaries in Central and Eastern Europe since the early 1990s. The two subsidiaries examined in this paper assemble televisions and home entertainment products in Hungary and Poland. Although their production is not identical, the two factories are comparable because they are part of the same product division within the MNC's organizational structure and have the same coordination distance from headquarters. Both subsidiaries were established in 1991 and gradually evolved from small industrial sites into mass production centers with an outstanding performance record. New technologically advanced products are slowly entering into the production plans of Multico Hungary (hereafter MHU), whereas Multico Poland (hereafter MPL)⁶ continues to assemble mainstream televisions.

Hungary and Poland were among the first countries in Central and Eastern Europe to introduce laws on private property and attract a significant amount of the total foreign direct investments post 1989 (Bandelj 2008b; UNCTAD 2006). Both MHU and MPL are key employers in their regions. Employment at MHU totaled 2,400 employees in 2004, with 91 percent working in production. MPL's headcount in 2003 oscillated according to production seasonality between 800 and 1,000 employees, the majority of employees being production workers. The main difference between the two host countries is the unemployment rate in the cities where Multico subsidiaries are located. MHU is located in a highly developed industrial region with low unemployment (around 4.9 percent in 2004; Székesfehérvár Labor Market Board 2005) and is therefore constantly experiencing labor shortages, especially in seasons with intensive production. In contrast, MPL, along with other foreign investors, is one of the key employers in a small Polish town with 27 percent unemployment (in 2003; Kwidzyn Labor Market Board 2004). The surrounding regions in Poland have even higher unemployment levels. These external conditions are an important resource for the strategies of trade unions, workers, and Multico's management – actors with the greatest influence on work practices through their social interaction with each other.

6 MPL, until recently the best performing Multico television factory in the world, was outsourced to an American investor shortly after this research was completed. The factory continues to produce televisions under Multico's brand name.

Multico is a firm with a declared paternalism toward workers and a responsiveness to the conditions prevailing in the host countries (Stoop 1992; Bartlett/Ghoshal 2002). These precepts have constituted the core of Multico's corporate value system ever since the company's establishment and its early operation in rural Netherlands.⁷ Despite a number of strategic reorganizations in the past decades, Multico's economic behavior is continuously informed by these values. In consequence, the MNC does not impose best organizational practices or attempt to embed itself by controlling or competing with local actors. Instead, the firm voluntarily negotiates its local role with host-country actors, thereby learning which practices work best in given conditions and adjusting the embedding process accordingly.

Although the outcomes of embedding encompass a number of dimensions, this paper is confined to the study of the work practices of production workers at MHU and MPL.⁸ These practices are viewed as a particular outcome of embedding, because they have been constructed through actor social interaction under given host-country conditions. The work practices addressed in the empirical analysis of embedding encompass *hard* and *soft* practices (Truss et al. 1997). Hard work practices, such as wages, working time, headcount changes, presence of temporary workers, and workplace rotation directly relate to labor costs and flexibility. Soft practices derive from company values, social relations at the workplace, and the psychological contract between the firm and its employees (Rousseau/Robinson 1994). They include motivation, worker empowerment and participation, and fringe benefits.

Work standards and labor market conditions in CEE host countries differ greatly from Western Europe, where Multico's headquarters and other subsidiaries are located. The CEE region offers a more liberal and market-driven institutional context for company practices (Bohle/Greskovits 2006; Bohle/Greskovits 2007; Danis 2003; Meardi 2006; Whitley et al. 1997). This is obvious, for instance, in the frequent use of workplace competition and performance-related pay (Sagie/Koslowsky 2000; Whitley et al. 1997). Despite the enactment of new labor laws, legal enforcement and sanction mechanisms lack strong institutionalization (Bluhm 2006).⁹ In consequence, legal regulation in Hungary and Poland leaves significant room for individual employers to benefit from the autonomy they enjoy over the construction of work practices. This situation reflects developments in the transition period after 1989, when real wages dropped, firm-based social benefits disappeared, and union density halved (Bohle/Greskovits 2007). The existing fragmentation and organizational weakness of trade unions prevents their influ-

7 Multico developed its own social and personnel policy in 1917. This included healthcare provisions, housing, pension plans, and the creation of a personnel department. In 1918, an 8-hour working day was introduced, and the company promised to respect public holidays based on Catholic feast days (Stoop 1992).

8 These workers constitute the largest share of the MHU and MPL workforces and are directly associated with the subsidiaries' main economic activity.

9 Poland has adopted laws stipulating trade union rights; however, the real trade union power is contingent upon particular employers' willingness to engage in bargaining.

ence over national public policy and coordinated collective bargaining (Avdagic 2005; Meardi 2006). If bargaining takes place at all, it is predominantly at the company or workplace level, with mixed evidence for cooperation and conflict and the marginalization of unions (Frege 2000).

The analysis of Multico's embedding in the host-country conditions in Hungary and Poland is based on face-to-face interviews with management, trade unions, and local labor market organizations. I conducted all the interviews in 2004 and 2005. The following sections present and analyze evidence of Multico's embedding in line with the analytical perspective adopted.

3 Embedding through social interaction in MNC subsidiaries

Derived from long-established company values, Multico's headquarters maintain a transnational mindset that subsidiaries should tailor corporate interests to differing host-country conditions (Bartlett/Ghoshal 2002). However, in Multico's case this mindset does not merely mean adapting organizational practices to host-country standards. Instead, the firm's embedding simultaneously leads to a development of novel practices, using local resources.

Outcomes of embedding

Before discussing the actual embedding process, I will briefly present the outcomes of this process in terms of selected subsidiary work practices at MHU and MPL.¹⁰ Adopting host-country standards without any attempt to innovate or to circumvent them is most extensive in regard to hard work practices, such as wages and numerical flexibility (fluctuations in overall workforce size). Regarding other practices, namely employment contract flexibility, working time organization, and the allocation of workers to specific tasks, Multico has developed a range of unique arrangements, utilizing the host countries' statutory regulations and work standards.

10 This section selectively addresses particular work practices. Table 1 in the Appendix provides a more detailed overview of work practices at MHU and MPL, along with an evaluation of their similarity to the other subsidiary studied and to local standards in Hungary and Poland.

Host-country market pressures and statutory regulation have a lesser influence on soft work practices than on wages and flexibility. Soft practices, such as flat hierarchies at the workplace, informal relations between management and workers, and generous fringe benefits, are an outcome of Multico's paternalist organizational culture and social interaction with local actors at the workplace. 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 in its home country, the Netherlands (Meer 2000; Stoop 1992). I have argued elsewhere that the paternalist corporate culture has been transposed to CEE subsidiaries, but its concrete form is determined locally (Kahancová 2007). The consequence of paternalism and local responsiveness in postsocialist host countries is that, in Poland, Multico tends to provide better work practices than those found in benchmark Polish companies (Kohl/Platzer 2004; Sagie/Koslowsky 2000). In Hungary, Multico's practices match the Hungarian standards to a great extent, but exceed them in terms of relatively generous fringe benefits, direct employee participation, and institutionalization of performance evaluations (Whitley et al. 1997). This makes MHU an attractive place to work, despite high flexibility in working time and contracts and the abundance of other job opportunities in the region.

A range of work practices in Multico's subsidiaries have been adopted through (formal and informal) bargaining with local actors, in particular workers and trade unions. The willingness to become involved in interaction with local actors squares with Multico's corporate interest in being responsive to host-country conditions and local resources. Apart from differences between Multico's practices and those of other locally established firms, the MNC's interest in local responsiveness has also generated differences between MHU and MPL. These include a preference for hiring agency workers at MHU over hiring their own temporary workers at MPL, free rotation within teams (MPL) compared to management-determined rotation of workers on the production line (MHU), and greater workplace informality at MHU, derived from the Hungarian culture, as opposed to more formal relations at MPL.

In sum, Multico's work practices in Hungary and Poland resemble local standards in some aspects and go beyond these standards in others. This compound outcome of MNC embedding applies to both host countries and shows consistency in MNC interests. However, as shown below, the outcomes at MHU and MPL have been achieved by different forms of social interaction between Multico and the host-country actors. The different means of embedding derive from the lack of a corporate template for subsidiary behavior and, at the same time, the relevance that the firm ascribes to local responsiveness. Thus, it is not the inability of the MNC to diffuse organizational best practices throughout the subsidiaries, but a voluntary interest in decentralized embedding in line with corporate values. According to this mindset, host-country standards constitute a benchmark for Multico's behavior, embedding, and subsidiary practices.

Process of embedding

Multico's embedding in Hungary and Poland incorporates unilateral managerial action and, where applicable, social interaction related to subsidiary work practices with the direct involvement of host-country actors. The form of social interaction between Multico and host countries' workers, trade unions, and the local society varies according to the interests of the actors involved.

The most important local actor directly influencing work practices is the subsidiary workforce. Multico's daily interaction with workers is important predominantly for soft work practices. Different interaction forms apply to different dimensions of management–workforce relations. Managerial control over work organization is extensive because of individualized monthly performance appraisals and team performance competitions. Control is most extensive at MPL due to personal appraisals carried out by the workers' foremen. At MHU, control is extensive but is not associated with specific persons. Even if control as a form of social interaction resembles dominance by the MNC over local actors and suggests that MNC embedding is occurring with a limited influence of local actors, additional forms of management–worker interaction in Multico's subsidiaries account for extensive worker involvement in the shaping of subsidiary work practices.

In practices other than work organization, the influence of workers in both subsidiaries is obvious mainly because of established employee participation in management decision-making through daily informal relations between managers and workers, regular informal meetings, worker surveys, and other forms of encouraged worker feedback on subsidiary practices. Social interaction, through which these practices emerge and reconstruct themselves, is best described as interactive bargaining, inclining toward a value-based exchange of resources between the MNC and workers. In both MHU and MPL, Multico collects worker feedback to improve work practices, thus granting workers a say in Multico's decisions. Although similar empowerment ideologies have been criticized for imposing company values on workers while feigning interest in workers' independent ideas (Michailova 2002), manipulation of workers' resources has not been found in Multico subsidiaries. The fact that Multico considers worker participation a relevant resource for managerial decisions improves trust at the workplace and reinforces worker involvement in MNC embedding. Moreover, generous fringe benefits at both MHU and MPL result from management–worker interaction in the form of value-based cooperation. Even though Multico's commitment to provide such benefits, without external legal or market pressure in the host countries, has a corporate origin, these benefits are developed locally, through interaction with workers. Therefore, social interaction with workers does facilitate the adoption of specific work practices that utilize host-country resources and, at the same time, square with corporate values. I argue that the construction of particular soft work practices in the subsidiaries has resulted from social interaction between the MNC and workers. In broader terms, this implies MNC embedding with considerable involvement of subsidiary workers. If embedding were to occur through

unilateral managerial action, Multico would strive to leave workers out of its organizational boundaries to acquire full control over local resources (Pfeffer 2006).

The second host-country actor influencing MNC embedding is local trade unions. Management–union interaction concentrates predominantly on hard work practices. Negotiations about pay and working time are legally stipulated, but formal resources for union involvement are not extensive in either of the two host countries. However, the actual union involvement in the construction of MNC work practices exceeds formal stipulations when the informal relationship between managers and unionists is cooperative. In this respect, interesting differences were observed in management–union interaction and thus union involvement in MNC embedding at MHU and MPL.

In Poland, Multico's willingness to engage in interaction and, at the same time, the Polish unions' willingness to compromise have contributed to a more cooperative interaction than in other locally based companies and other Multico subsidiaries in Poland. Social interaction between Multico and the workplace union at MPL has gradually stabilized in the form of (mostly informal) interactive bargaining devoid of industrial conflict. The parties are committed to discussions and conform to joint agreements, the majority of which lack written formalization and effective sanction mechanisms. The union never uses local media to publicize internal matters, which contrasts strongly with the situation at MHU. Such conduct is based on a high level of trust and a commitment to avoid militant action. In consequence, the trade union is involved not only in annual bargaining over pay and working time, but also in a number of operational decisions where formal union involvement is not legally stipulated. These include informal working time revisions, decisions on the length and type of temporary contracts, social criteria for hiring temporary workers, and the provision of fringe benefits. In sum, MPL's management treats union resources as a useful input in the embedding process, even if legal obligations or economic incentives to involve unions are not obvious in Poland. The management–union interaction is best characterized as value-based cooperation (in setting social criteria for hiring temporary workers) and interactive bargaining (in other work practices), with informal commitments that both parties respect. This form of social interaction reinforces trust and the development of informal institutions, and accounts for extensive union involvement in MNC embedding.

In contrast to MPL, management–union interaction at MHU has been noticeably confrontational ever since the subsidiary's establishment in 1991. Multico claims that the current character of interaction can to a large extent be attributed to the union's inability to strike bargaining deals. Due to a number of open conflicts, the situation at MHU is best described as social interaction in the form of competition, which lacks shared values, trust, and willingness to compromise. Agreements, if reached, involve a number of concessions from both sides. As a result of this situation, union involvement in shaping work practices is considerably lower than at MPL and only marginally exceeds Hungarian legal requirements. However, this does not mean that MNC embedding occurs without trade union involvement. Through high membership, the trade union is

powerful enough to prevent the MNC from embedding by unilateral managerial action and thus exercising control over union resources and interests. In consequence, embedding occurs via competitive interaction, with both actors striving to gain control over local resources. Work practices are then constructed according to the interests of the more powerful actor.

The third group of local actors relevant for MNC embedding in host countries is the local society, comprising municipalities, labor market boards, NGOs, and the media. Although these actors do not have a direct effect on Multico's work practices, their perceptions of Multico's involvement in developing the local economy and society reveal additional evidence of MNC embedding. In the embedding process, interaction with the local society thus serves two purposes. First, it allows Multico to assess the needs of the local society and respond to them through sponsoring activities, thereby strengthening local social ties and building an image of a locally relevant employer.¹¹ Second, interaction with the local society improves the legitimacy of MNC activities targeted locally (c.f. Beckert 2006; Monshipouri/Welch/Kennedy 2003). In both host countries, Multico declares its willingness to contribute to the functioning of local society, to gain local knowledge and to benefit from it. Accordingly, the MNC actively involves itself in social interaction with representatives of municipalities, labor market authorities, schools, hospitals, and social and cultural organizations. More systematic interaction has developed after repeated informal encounters between Multico's managers, mayors, and other municipality representatives in Hungary and Poland. Interaction predominantly takes place in the form of value-based cooperation and interactive bargaining, often incorporating informal relations and joint agreements that do not require large concessions. Despite the fact that local actors lack the capacity to impose strict standards on MNC's local behavior, their expectations are often fulfilled by the MNC. This is due to Multico's corporate values and its willingness to contribute to the local society's development. Examples include Multico's positive discrimination of disadvantaged labor market groups, i.e. when offering employment to people from poorer families in Poland or to those from a local crisis center in Hungary. A further relevant factor in understanding Multico's embedding via interaction with the local society is the limited impact of host-country institutions. Since micro-level interaction is not subject to formal regulation, social interaction is to a large extent an outcome of the company's and local actors' interests. Some impact of local market pressure applies to MPL, because another large foreign company located in the same city as MPL invests extensively in its local reputation. However, it is unclear whether Multico would be less concerned with its local image if market pressures were absent. In fact, they are absent in Hungary, but Multico's embedding through cooperation and interactive bargaining with the local society applies to both host countries.

11 Examples of activities Multico has developed in response to local societies' needs include sponsoring English classes in Polish elementary schools, purchasing hospital equipment in Hungary and Poland, contributing to theater and sewage system restoration in Hungary, and sponsoring the illumination of a historical castle and cathedral in Poland.

To sum up, in empirical cases of cooperation and interactive bargaining, local actors have an extensive impact on MNC embedding and the resulting work practices. Moreover, informal trust-based relations between MNC managers and local actors assist in the creation of novel work practices, i.e. employment flexibility, employee participation, and the statutory rights of workplace trade unions. In contrast, in cases where interaction does not lead to compromises or joint goals between the MNC and local actors, Multico implements work practices by means of unilateral decision, drawing on its own knowledge of local resources. These findings underpin the argument that social interaction between Multico and host-country actors is central to the MNC's embedding process. Although different interaction forms apply to Multico's interaction with different actors, forms of interaction that encompass the mutual exchange of resources and trust between involved actors are more frequent than interaction forms with extensive power asymmetry, conflicts of interests, and a lack of trust. Therefore, I argue that MNC embedding in the two CEE host countries studied occurs predominantly with the involvement of local actors, which confirms the relevance of social forces in constituting the economic behavior of MNCs in host countries.

4 Conditions of social interaction: How compatible are organizational interests with host-country conditions?

The findings presented in the previous section inspire a deeper theoretical inquiry into the conditions under which MNC embedding, constituted by social interaction, is possible. Such inquiry leads to revisiting theoretical notions of the compatibility of MNC organizational interests with host-country actors' interests and institutions, which are addressed by two streams of literature.

The first one is a strand of earlier globalization theories, which assumes a cross-national convergence in national business systems and organizational practices. This trend is likely to have resulted from increasing global competition, technological advancement, and the liberalization of trade and capital movements (Berger/Dore 1996; Kerr et al. 1962; Womack/Jones/Jones 1991). An implication for the micro-level behavior of actors like MNCs is that actors should prefer work practices that have proven economically optimal regardless of differing host-country conditions. In other words, this perspective assumes a profit-driven rational MNC with instrumentalist behavior (Bandelj 2008b). Compatibility between organizational interests and host-country institutions is then secured through the firm's control over weak host-country institutions.

The evidence presented from Multico's CEE subsidiaries does not support the instrumentalist MNC perspective in favor of convergence in organizational practices and a coordinated effort to bypass host-country institutions by importing best practices from foreign subsidiaries. Instead of endeavoring to overcome host-country diversity,

evidence suggests that MNCs are attempting to incorporate differing host-country resources in the embedding process. They do this via voluntary social interaction with workers, trade unions, and the local society through several forms. Embedding is thus not limited to unilateral managerial control with the aim to diffuse best organizational practices across host countries.

An alternative stream of scholarship, gradually offsetting the convergence thesis and gaining in importance over recent decades, is rooted in sociological new institutionalism and the varieties of capitalism approach (Dore 1991; Hall/Soskice 2001; Hollingsworth/Boyer 1997; Katz/Darbishire 2000; North 1991; Streeck 1992). The general argument in this literature is that different institutional settings are able to provide an optimal performance of economies. A comparative institutionalist perspective on MNCs proposes that, instead of opting for the same work practices in different conditions, MNC practices differ because of home and host-country isomorphism (Almond/Ferner 2006; Ferner/Quintanilla 2002; Ferner/Quintanilla/Sánchez-Runde 2006; Maurice/Sorge 2000). In this logic, the compatibility between organizational interests and host-country conditions is secured through institutional pressures, coercing MNCs to adapt to local standards. The actual *interest* of the MNC in diffusion has been rarely questioned in this literature.

Postsocialist countries in CEE lack a strong institutional framework, i.e. legal stipulations and strong collective bargaining systems facilitating particular work practices over others (Avdagic 2005; Mailand/Due 2004; Meardi 2006). Therefore, the CEE environment is relatively conducive to a variety of organizational practices without the constraining effect of host-country institutions, keeping employment protection and formal and informal work standards lower than in continental Western Europe. Had Multico been pushed to adapt to local practices because of host-country pressures,¹² empirical findings would indicate more extensive similarities between Multico's work practices and local standards in Hungary and Poland. Instead, evidence suggests that some of Multico's work practices resulting from embedding, and the involvement of local actors in the embedding process, exceed Hungarian and Polish standards. Although opting for embedding with the involvement of local actors might incur additional costs for the firm, the company obtains stability, industrial peace, and a motivated workforce in exchange. This justifies Multico's chosen strategy over short-term profitability (Thelen/van Wijnbergen 2003).

Based on the above reasoning, I argue that organizational interests and institutional pressures on MNC behavior mutually influence each other in the embedding process. In other words, the means of realizing organizational interests, i.e. profits or value-based interests, such as responsiveness to host-country conditions, are endogenous and informed by the MNC's ability to benefit from host-country resources. At the same

12 Host-country pressures include, for example, legislation, pressures from trade unions, market pressures, or societal pressures to adopt the same work standards as in locally based companies.

time, postsocialist institutions in Hungary and Poland are important in facilitating MNC interests, namely Multico's attempt at embedding and constructing subsidiary work practices with reference to host-country conditions. This argument sees embedding and the related institutionalization of work practices as a contested process in which actors' interests and power resources shape existing institutions instead of merely responding to them (Edwards/Colling/Ferner 2007). My argument is thus positioned between a narrow rational perspective on MNC behavior and institutional determinism with a strong host-country effect (Wailes/Ramia/Lansbury 2003).

Sustainable compatibility between organizational interests and host-country institutions, which is the basis for social interaction between the MNC and local actors in the embedding process, requires the MNC and local actors to acknowledge that there is a need for compatibility in the first place. For Multico, this means attempting to balance universal profit interest with institutionally responsive behavior. As already noted, Multico is a company that traditionally combines the search for best economic performance with responsiveness to host-country institutions (Bartlett/Ghoshal 2002). In consequence, the relative autonomy of Multico's CEE subsidiary behavior is not the result of the firm's inability to centralize decisions at headquarters and become embedded by controlling host-country resources. Instead, the MNC views the subsidiary as the optimal organizational level for making decisions on work practices, thus delegating decisions on the embedding process and the use of local resources. Therefore, the fact that the MNC itself is willing to utilize host-country resources for its embedding process and to construct work practices through interaction with local actors eliminates the tension between a universal strategy of the MNC and constraints by host-country actors and institutions.

Besides MNC interests, the other crucial dimension of functioning compatibility between organizational interests and local institutions is the local actors' interests, in particular their response to MNC behavior in CEE countries. The power asymmetry between Multico and local actors is obvious from an objective perspective (international versus local power resources of Multico and local actors) and from actors' perceptions. Local actors involved in interaction with Multico, most importantly trade unions, support Multico's embedding without headquarter involvement and a corporate template for firm behavior. Such MNC behavior is more favorable for local actors because it reflects individual workers' needs better than work practices imported from abroad. The MNC subsidiaries' autonomy from corporate headquarters and their openness to social interaction with host-country actors give trade unions more opportunities for involvement in the construction of MNC work practices. Even if unions were to opt for similar work practices across different countries, due to their competing interests in Western and Eastern Europe, company-based trade unions lack the capacity and power vis-à-vis the MNC to pursue convergence efforts.

In sum, compatibility between the MNC's organizational interests and host-country conditions is an important prerequisite for MNC embedding through social interac-

tion with host-country actors. On the one hand, the MNC's decentralized organization and willingness to benefit from local resources that may differ across host countries is a condition for MNC embedding through social interaction. On the other hand, the host country's institutional structure has to be conducive to MNC embedding and offer space for actors' social interaction. Additionally, embedding through interaction forms that entail the active involvement of both the MNC and local actors is more likely to develop when the interests of host-country actors align with MNC interests.

5 Embedding as institution building from below

In the introduction, I highlighted two dimensions of embedding: first, how local actors become capable of shaping MNCs' organizational practices in CEE subsidiaries and, second, how foreign actors, in particular MNCs, become capable of shaping work norms. Thus far the paper has focused on the former dimension. This section addresses the second dimension, namely, the impact of MNCs on shaping host-country work standards that extend beyond the subsidiaries.

Evidence suggests that the form of MNC embedding is not only influenced by, but also shapes, the interests of workers and trade unions and the conditions on which certain work practices are legitimized as local standards (i.e. temporary work and seasonal jobs). Next, MNC behavior in CEE host countries contributes to modifying expectations, benchmarks, and competitive pressures for other employers in the region. MNCs thus have great potential to influence local resources and contribute to changes in local standards. This is especially the case in host countries that lack extensive formalized resources in the form of detailed labor law or institutionalized collective bargaining. Here, MNCs' social interaction with host-country actors channels the creation of additional local resources (e.g., work standards serving as local benchmarks, cooperative industrial relations with commitment to informal agreements and moral commitments to worker welfare derived from company values). Resources created through informal trust-based social interaction may diffuse outside a particular subsidiary and gain acceptance among other employers and the local society. This process can be characterized as institution building from below, beyond MNC subsidiaries. Thus, in the embedding process, the MNC is both an institutional rule *taker* and a rule *maker* (Streeck/Thelen 2005).

Findings in Hungary and Poland give empirical support to institution building from below. However, institution building does not lead to coerced conformity of workplace institutions with current sectoral or national collective institutions. Instead, the direction taken is the formation of local standards that are being tailored to the needs of individual employers and local labor markets. In the Polish case, this applies to the local use of dual work flexibility (a unique combination of temporary contracts and flexible working time; cf. Appendix, Table 1, Note a), extensive fringe benefits, dependence

of the local society's development on MNC involvement, and cooperative industrial relations deriving from interpersonal management–union relations. In Hungary, the emerging local standards based on Multico's influence include the development of temporary labor agencies and the use of seasonal temporary workers, company-specific ways of addressing workforce shortages, and extensive fringe benefits despite confrontational industrial relations.

Following the above reasoning, I argue that social interaction between MNCs and local actors facilitates institution building in postsocialist countries that lack extensive legal or collective regulation of work issues. Although the embedding process through which MNCs become institutional rule makers differs, I argue that the outcome of MNC embedding in the two host countries studied is the emergence of new local institutions as consequence of actors' behavior and micro-level interaction.

6 Conclusions

The standard approach in the comparative institutionalist literature on MNCs is to focus on the *outcomes* of MNC embedding in host countries, and thereby inquire to what extent MNCs diffuse best organizational practices throughout host countries or adapt to host-country standards in work practices (Ferner/Quintanilla/Sánchez-Runde 2006; Geppert/Mayer 2006). This paper has taken a different approach and attempted to combine theoretical and empirical insights into the embedding *process* of MNCs in postsocialist host countries, highlighting the constitutive elements of this process. The focus on the embedding process thus addresses a different question, namely the role of foreign and local actors in shaping labor market outcomes and institutions in the host countries. Drawing on a theoretical perspective that MNC embedding is socially constituted and occurs through the social interaction of MNCs and host-country actors, I conclude with two arguments.

First, MNC embedding is a complex process influenced by a number of organizational and host-country factors. In consequence, embedding occurs in distinct ways, with greater or lesser involvement on the part of host-country actors. Depending on the interests and power resources of the actors involved and the enabling institutional host-country conditions, distinct dynamics of social interaction between the MNC and host-country actors will emerge. These dynamics account for different boundaries between the extent to which MNC embedding occurs via unilateral managerial decisions on work practices and the extent to which embedding results in work practices constructed with the involvement of host-country actors. In this respect, interesting differences in interaction between managements and local trade unions were found between the Hungarian and Polish Multico subsidiaries. In Hungary, interaction is best described as competition, entailing a lack of trust and commitment to jointly agreed work practices,

leading to embedding with less local actor involvement. In contrast, a cooperative form of interaction in Poland accounts for embedding through extensive involvement of local actors. Both kinds of embedding process are predicated on the view that the MNC's economic interest is informed by non-economic factors and social relations. However, in the latter case, trust and informal relations between actors underline the social nature of economic action, namely the MNC's openness to local actor influence on its embedding process. Therefore, I argue for a social construction of economic behavior in the MNC's embedding process. The conditions influencing and facilitating the embedding process entail compatibility between several resources: the MNC's corporate values and profit interest, host-country institutions, interests of local actors, and trust between MNCs and locals. Compatibility is acquired through the MNCs' organizational interests reflecting the specificities of the CEE countries' institutional context.

Social interaction allows MNCs to benefit from local institutional resources. Therefore, MNC behavior is governed by host countries' institutions. In other words, institutions in CEE countries are an important resource for the embedding process of MNCs. However, my second argument is that it is ultimately the actors that make the most of institutional spaces and reconstruct labor market standards. Social interaction creates space for MNCs to become legitimate actors, or institutional rule makers, contributing to institution building in host-country labor markets. Social interaction between MNCs and local actors thus also facilitates institution building at the micro level. These institutions help regulate employment affairs in environments where the broader institutional underpinning of work practices and the tradition of collective bargaining are less extensive than in continental Western Europe.

What are the broader effects of MNC embedding on CEE host countries? For local actors in Hungary and Poland, the forms of MNC embedding presented here yield both positive and negative effects. The power asymmetry between MNCs and local workers and trade unions is obvious in social interaction, MNCs being the more powerful actors. In consequence, weak postsocialist trade unions are involved in MNC embedding on conditions specified by MNCs. This means that workers and unions are left to the favor of MNCs, even if a particular firm provides generous fringe benefits and fosters cooperative relations with the local society. At the same time, the MNC behavior documented here does have positive spillover effects on local actors and work standards. This is visible when evaluating recent trends in working conditions and labor market dynamics in postsocialist countries. Working conditions in CEE have noticeably improved since the settlement of MNCs, job opportunities with fair working conditions have increased, and MNCs offer higher pay and benefits than local employers (Bohle/Greskovits 2006). Therefore, despite the increasing dependence of workers and local societies on MNCs, MNC embedding contributes to the social and economic development of CEE societies.

Appendix Table 1: Work practices at MHU and MPL

| | Evidence | | Evaluation |
|---|--|---|---|
| | MHU (Hungary) | MPL (Poland) | |
| <i>Hard work practices</i> | | | |
| Wages | Decentralized wage setting; median plus wages 10–20 percent above sector average | Decentralized wage setting; median plus wages 10–20 percent above sector average | Adaptation to host-country wage standards |
| Numerical flexibility (changes in worker headcount) | Workforce size fluctuates according to production seasonality | Workforce size fluctuates according to production seasonality | Adaptation to industry-specific conditions in the host region |
| Working time organization | Highly flexible, 4 shifts, whereas local standard is 2–3 shifts | Highly flexible, min-max working time system ^a | Practices unique vis-à-vis local standards and also vis-à-vis other Multico subsidiaries |
| Employment contract flexibility | Temporary agency workers | Seasonal workers with short-term seasonal contracts or 3-year contracts | Locally constructed unique practices instead of passive adaptation to existing standards. Shaping local employment standards ^b |
| Functional flexibility (task allocation, rotation, worker exchange between tasks and firms) | Permanent division into work teams; use of the corporate <i>butterfly</i> concept. ^c Unique exchange of temporary workers with a nearby ice cream factory with opposite production seasonality ^d | Free rotation within work teams; use of the corporate <i>butterfly</i> concept | Limited influence of formal institutions but great influence of production technology. Some use of corporate concepts. Unique functional flexibility at MHU under specific local conditions |
| <i>Soft work practices</i> | | | |
| Motivation and performance-related pay | Individual and collective financial motivation, locally constructed monthly performance pay | Individual and collective financial motivation, locally constructed monthly performance pay | Some variation in workers' pay based on collective and individual performance indicators, determined locally |
| Work organization | Great degree of informality at the workplace | Formal hierarchy but informal daily relations | Adapting to host-country conditions encouraged by corporate values |
| Employee participation in management decisions | Involvement through personal contact, surveys, meetings | Involvement through personal contact, surveys, meetings | Some forms of employee participation based on corporate concepts; others fully local |
| Fringe benefits | Generous benefits above host-country standards, constructed locally | Generous benefits above host-country standards, constructed locally | Generous fringe benefits without cross-subsidiary coordination encouraged through corporate paternalism |

a MPL developed an innovative dual flexibility scheme: flexibility through temporary employment contracts is combined with working time annualization in the form of min-max contracts, whereby workers are paid for 50 percent of the 40-hour working week even when they stay at home due to low production. If production increases, workers will work as production requires, up to the stipulated 40 hours per week.

b Shaping local employment standards: In Hungary, MNC demand for agency workers prompted the development of temporary labor agencies. In Poland, because of the MNC's refusal to hire agency workers, labor agencies had no incentive to grow.

c Butterflies imply a pool of multi-skilled workers.

d This arrangement secures enough workers for both factories in their high season and improves job security for the workers concerned.

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