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## Employee Relations at Asian Subsidiaries in Hungary: Do Home or Host Country Factors Dominate?

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### Abstract<sup>1 2</sup>

Asian foreign direct investment is substantial in Hungary in regional comparison. Multinationals from China, India, Japan, and Korea are important investors in the Hungarian economy. The main aim of this article is to describe how home and host country institutions and business and management culture influence the operation of the companies in question, first of all in the various areas of human resource management. In the analysis, we rely mainly on the Varieties-of-Capitalism approach, given its emphasis on the organizational and related cultural differences that result in different types of capitalisms in the world economy. The article is based on company interviews conducted with the representatives of seven Asian subsidiaries in Hungary (1-10 interviews per company) that are operational in the automotive and/or electronics industry. Our conclusion is that management and labor relations in these companies evolve under the influence and through the interaction of related home and host country business culture, thus they contain elements of both. However, we found the clear dominance of host country impacts, which has become more pronounced over time.

*Keywords:* foreign direct investment, Asian multinational companies, emerging multinationals, impact on the local economy.

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## ***1. Introduction***

Asian foreign direct investment (FDI) is substantial in Hungary in regional comparison. Hungary is host to large Chinese, Indian, Japanese, and Korean outward FDI to a greater extent than other new Member States of the European Union. Multinationals operational in the automotive, electronics, and other industries, as well as in certain services, from Japan, Korea, China, and India play an important role in the Hungarian economy. For example, the Japanese Suzuki and Denso, the Chinese Huawei and the Wanhua Group, the Korean Samsung and Hankook, and the Indian Apollo Tyres and SMR are all important companies that leave their marks on the performance of the Hungarian economy and/or on smaller regions of the country.

The main aim of this paper is to show how home and host country institutions and business and management culture influence the operation of the companies in question, first of all in various areas of human resource management (HRM). The general and business culture and *modus operandi* of Asian firms differ considerably from those of European and East Central European ones. These differences may cause problems in the everyday operation of subsidiaries (Adler and Graham, 1989) if they are not handled and taken into account at an early stage of investment. Furthermore, they can even influence the performance of the company through supporting certain types of modus operandi over others (Ambos and Schlegelmilch, 2008). Thus, the actual operational mode of a company may be a mix of adaptation to the local business environment and of maintaining certain home country practices. In this article, we analyze whether home or host country practices dominate in the areas of industrial relations, employee relations, and vocational training in selected Asian subsidiaries in Hungary. Selection of these areas is based on data availability. We concentrate on qualitative data obtained from company interviews. Our findings suggest that host country impacts dominate in the overwhelming majority of areas.

The paper is organized as follows. First, we present the theoretical framework of our analysis and a review of the related literature, followed by a brief background section on Asian FDI in Hungary. Then the methodology that was applied is briefly described. In the next section, we present the results of our analysis. The last section concludes.

## ***2. Theoretical basis and review of literature***

The literature offers a wide range of approaches to explain the differences in HRM between countries and also the variety of combinations multinational companies employ when transferring their home countries' rules, procedures and values, or opting for varying degrees of 'localization.' The most commonly used concepts and tools for such analysis come from three main disciplines: the international human resource management literature (IHRM), the school of thought concerning cross-cultural differences and, more recently, the field of Varieties of Capitalism (VoC). As defined by the *SAGE Handbook of Human Resource Management* (Hall and Wailes, 2009), IHRM is largely concerned with questions concerning 'the extent to which multinational companies reproduce similar sets of HR practices across their subsidiaries' (ibid.: 122). The study of cultural differences and cross-cultural business

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encounters sheds light on important factors such as individualism vs. collectivism, the degree of respect for hierarchy, the role of networks, work ethics, etc. (For a review of the literature, see e.g. López-Duarte et al., 2016.) While fully acknowledging the usefulness and applicability of both the IHRM and cultural approach, in this paper we shall analyze our qualitative raw data from the perspective of an extended VoC framework. We now present this approach and explain the reasons we used it in our analysis.

### *2.1 The Varieties-of-Capitalism approach*

The Varieties-of-Capitalism (VoC) approach, which has been widely used recently in the business literature (see e.g. Fernandez and Aalbers, 2016; Schneider and Paunescu, 2012; Schneider, Schulze-Bentrop and Paunescu, 2010; Witt and Jackson, 2016) is an institutionalist approach which was elaborated for Western developed countries (Amable, 2000). It is designed to help make sense of the systemic variety of developed capitalist economies' politico-economic institutions. As opposed to the Washington consensus and traditional neoclassical approaches that assume convergence among economies, it emphasizes the existence of different capitalist trajectories (Hall and Soskice, 2001) which depend to a great extent on local specificities. It assumes that the institutional structure determines the strategy of firms; the sources and origins of their competitive advantage. It distinguishes two main types of national political economy: Liberal Market Economies (LME), and Coordinated Market Economies (CME). In LME, companies coordinate their activities primary through hierarchies and competitive market arrangements. In CME, firms rely mainly on non-market relationships to organize and manage their activities. Overall, many transactions are governed by institutional arrangements that are external to the firm.

Thus the VoC approach is relevant at the micro-level as well: it increases understanding of how firms are able to induce their employees and business partners to make high asset specificity investments that enhance their competitiveness in international competition (Carney et al., 2009) – thus involving the type and characteristics of interactions with employees and partners that influence the company's capacity to create and exploit its core competencies, and therefore its level of competitiveness. The VoC approach concentrates on institutions and analyses in detail strategic interactions between firms and institutions in five main areas: the financial market; the labor market; educational and vocational training; corporate governance; and inter-firm relationships. These five spheres represent the institutional settings in which firms have to resolve their coordination issues. According to Hall and Soskice (2001), companies will adjust their strategies and organizational practices to take advantage of institutional opportunities at the location of their operations, therefore the institutional environment can confer a comparative institutional advantage on firms that align themselves with the opportunities and resources in their environment. Understandably, if a firm goes abroad and establishes its affiliates and subsidiaries in an environment which is institutionally different from that of its home country, it must adapt its *modus operandi* to a certain extent to its new environment, which may be very different to its domestic one. This is why it is worth analyzing the interactions of internationalized firms with, and the level of their adaptation to, their

foreign environment, which understandably differs (to a different extent with different host countries) from their home business environment.

Thus our main research question is the following: in the case of Asian subsidiaries operating in Hungary, does the host or home country institutional impact dominate (if present at all) in the various areas of operation of the firms?

Understandably, our research is only a first step in exploring this area. We cannot take into account many elements at the present level of our project. For example, the behavior of firms influences development in these five areas (financial market, labor market, educational and vocational training, corporate governance, and inter-firm relationships) as well. Furthermore, the different spheres are mutually reinforcing. There are other limits to the VoC approach and various critiques of the latter, such as the actual diversity of the market economy in various countries, the actual “diversion” from the predicted characteristics of LME/CME, the influence of politics and policies, and the problem of explaining fundamental institutional change (Kang, 2006) as well as its limits in the analysis of firm behavior (Carney et al., 2009).

## *2.2 Results of empirical studies*

Concerning one of our areas of analysis, the literature does not provide conclusive evidence about the applicability of the VoC approach to Asian economies. According to Carney et al. (2009), there is no unique form of capitalism, but several forms of Asian capitalisms which are fundamentally different from the Western types of capitalism. Witt and Redding (2013) present similar findings in an analysis which embraces all four countries in our sample (among others): China, India, Japan, and Korea. According to their findings, only Japanese capitalism can be integrated into the VoC approach. Other countries’ forms of capitalism are fundamentally distinct from the Western types. As the authors state: ‘the Varieties of Capitalism (VOC) dichotomy is not applicable to Asia; [...] none of the existing major frameworks capture all Asian types of capitalism; and [...] Asian business systems cannot be understood through categories identified in the West’ (Witt and Redding, 2013: 265). However, the authors categorized the 13 Asian economies under analysis into five groups according to various institutional variables: (post-)socialist economies, advanced city economies, emerging Southeast Asian economies, advanced Northeast Asian economies, and Japan. They underline the large diversity of Asian economies along various factors related to VoC. Furthermore, they emphasize important business elements which are present in many Asian countries but which exist neither in Western Europe nor in North America. For example, differences in business trust, and, related to this, in forming business networks, as well as the high level of family control in firms, different business-culture values, or the high level of informality. As far as the countries we examined are concerned, China and India belong to the (post-) socialist category, Korea is an advanced Northeast Asian economy, while, as we have seen, Japan forms a group in itself. Mazumdar (2010) analyses India’s fit and concludes that Indian capitalism is distinct (in line with the VoC approach), but also that any historical and economic history analysis should accompany the examination of factors which determine the classification of certain countries. Furthermore, the author shows that not all VoC factors are easily analyzed and relevant for India. Other authors underline further factors that influence Asian capitalism; for example, Andriessse et al. (2011)

propose a link between regional VoCs and global value chains in Asia. Similarly, Pananond and Giroud (2016) underline the differences in the institutional background of internationalizing Asian multinational firms.

On the other hand, as already seen, Japan can be integrated into the VoC approach (see e.g. Amable, 2001) and there are papers which have located one (Korea: Condé and Delgado, 2009; India: Sibal, 2014 and Mazumdar, 2010; China: Witt, 2010) or more (Hoen, 2013) Asian economies along the LME-DME spectrum in an extended VoC model or analyzed them according to the areas of the VoC approach. Here we do the latter and we agree with Condé and Delgado (2009: 21) that the VoC approach is ‘a valuable guide to research on the diversity of settings in which the capitalist order takes structure.’

As for Hungary’s case, it is similarly not straightforward. In East Central and Eastern Europe, authors have tried to fit emerging local capitalism into the VoC framework and found that it contains elements of both LME and CME, thus it can be perceived as a ‘mixed’ model (e.g. Mykhnenko, 2007). Others have stated that VoC differ considerably between the former Soviet Union and the new members of the European Union, and they cannot be integrated into the original VoC categories of LME and CME. Thus, some authors have customized the VoC framework and identified distinctive varieties of capitalism that embrace several countries of the region. Lane and Myant (2007) and Nölke and Vliegenthart (2009) consider that the Visegrad Group (the Czech Republic, Hungary, Poland, and Slovakia) presents common institutional characteristics and forms a distinctive VoC – Dependent Market Economies (DME). Their high reliance on foreign direct investment and incoherent institutional systems are important characteristics from this point of view. They thus have a specific type of comparative advantage that is based mainly on their role as an assembly platform for semi-standardized industrial goods, not on radical or incremental innovation (Nölke and Vliegenthart, 2009; Farkas, 2011; Szanyi, 2012; Rugraff and Sass, 2017). On the other hand, Ozsvald (2014) noted that, while initially similar to each other, viewed from a later and different perspective (based on the development of stock exchanges and the concomitant pressure for the improvement of corporate governance mechanisms), the lumping together of the Visegrad countries conceals the important recent institutional divergence within this group of countries. Similar conclusions are drawn by Allen and Aldred (2012). It is important to note that, according to management research, diversity again characterizes the region, as management culture in CEE still differs considerably from Western European practices (Reynaud et al., 2007; or Karoliny et al., 2009 and Kazlauskaitė et al., 2013 specifically for human resource management) suggesting high heterogeneity and diversity within the region. Furthermore, it should be noted that many authors have pointed to the failures of the VoC approach in explaining and describing CEE capitalism – see e.g. Bohle and Greskovits (2007). In spite of these controversies, many characteristics of various VoC-related areas are straightforward for Hungary and for other countries of the CEE region – thus this unresolved classification issue does not hinder our analysis.

To our knowledge, only one paper has thus far tried to compare on the basis of VoC emerging economies in East Central Europe and in Asia. Hoen (2013) points out that, generally, European emerging economies (former transition economies and present Member States of the European Union) have overall converged to a different

extent to the LME, with the Baltic states and Poland becoming closest and the Central European countries, among them Hungary, somewhere in between (the group furthest from convergence is formed by South Eastern European countries). On the other hand, emerging Asian economies are converging towards a CME model with strong state influence and imperative bureaucracy, with China being in the lead (i.e. most similar to the coordinated model). The author does not expect convergence between the two groups of countries, thus expecting countries from the two continents to diverge towards two different models in the future. While we do not agree with this conclusion, we agree with the need to apply a dynamic approach; i.e., to consider changes over time.

The use of the VoC approach in our analysis is not without precedent in the literature. This approach can be fruitfully used in industrial relations and employment relations research. Based on the LME-CME distinction, Hamann and Kelly (2008) identify various areas (for example, for explaining labor market outcomes, differences in training and welfare regimes, differences in skill composition, etc.) in which the VoC approach may serve as a suitable analytical framework. Dibben and Williams (2012) extend the use of the VoC approach by incorporating emerging economies and their industrial relations into the analytical framework and by introducing the Informally Dominated Market Economy form of market economy. They also capture the impact of formal as well as informal institutions on employment relations in emerging economies. In human resource management, for example, Wilkinson and Wood (2017) base their analysis on the LME-CME dichotomy to understand similarities and differences in HRM practices between countries and the changes that occurred therein after the global crisis.

Overall, while acknowledging the weaknesses of the VoC approach, especially in succeeding at identifying a specific Asian type of capitalism, we agree with many other authors that the VoC approach and its five main areas of analysis represent a useful tool for comparing the institutional factors and operational practices present in various “national” capitalisms. This approach may prove to be useful when comparing host and home countries of foreign direct investment projects in the areas of institutions and practices, and thus the actual features of a subsidiary in a host country, especially in terms of employment and industrial relations.

### *3. Background: Asian FDI in Hungary*

As FDI data are now available that are in line with the Ultimate Investing Country (UIC) principle – whereby FDI is assigned to the country of the foreign investor that ultimately controls the investment in the host country (OECD, 2015) –, we have a clearer picture about how much FDI from Asia is invested in Hungary and other Visegrad countries. Previously, FDI data were broken down according to the nationality of the immediate investor, and as Asian multinationals quite often channel investments through other countries before they reach their final destination, this resulted in a low value for Asian FDI in Hungary. The latest BPM6 FDI data are available for Hungary for 2016, and here are presented broken down according to ultimate investment and direct investment (Table 1).

Table 1: FDI stock originating from the four countries under analysis  
(and Hong Kong) in Hungary in 2016 (million euros)

	direct	ultimate	direct as % total stock	ultimate as % total stock
China	165.82	1826.08	0.22	2.40
Hong Kong	505.08	167.67	0.66	0.22
India	-14.23	2077.75	-0.02	2.73
Japan	838.73	2373.80	1.10	3.12
Korea	1447.32	1357.95	1.90	1.78
Total	76202.71	76202.71	100	100

Source: Hungarian National Bank

It is obvious from Table 1 that the shares of the countries under analysis in the total FDI stock in Hungary are substantially larger than the shares for the nationality of the direct owners, with the exception of Korea (and Hong Kong, which is included in the analysis as the majority of Hong Kong FDI is in reality Chinese). The combined share of the four countries under analysis (plus Hong Kong) in reality exceeds 10 per cent of total FDI stock in Hungary, which is quite a substantial amount given the large geographical distance and, in the case of China and India, the large gap between the level of economic development of the home and host economies in question (and especially because of the fact that the home economies have substantially lower per capita GDP than the host country). On the other hand, it may be the large geographical distance or tax optimization which explains the dominant indirect nature of these investments (i.e. the use of intermediary countries and subsidiaries located in between the final/ultimate owner and the local subsidiary). Furthermore, among the BRICS members, which include India and China from our selected group of countries, another important explanation is that the real origins of investment are being concealed (Aykut et al., 2017; Kalotay, 2012), given in certain cases the hostile or at least non-welcoming approach to these investments in developed and in European countries.

Comparison of the data of the Visegrad countries<sup>3</sup> shows that Hungary is an important host country for Asian FDI (Table 2). In per-capita terms, Hungary has more FDI than the Czech Republic, and particularly Poland.

<sup>3</sup> Data for Slovakia are not available.

Table 2: FDI stock originating from the four countries under analysis (and Hong Kong) in the Czech Republic, Poland, and Hungary (million USD)

	Korea		India		Japan		China		Hong Kong		Five countries together		Per capita USD
	Immediate	Ultimate	Immediate	Ultimate	Immediate	Ultimate	Immediate	Ultimate	Immediate	Ultimate	Immediate	Ultimate	Ultimate
Czech Republic	3255	3046	-1	100	1908	3314	707	1096	116	204	5985	7760	730
Poland	1135	1784	103	299	887	4996	223	827	347	465	2695	8371	218
Hungary	1533	1438	-15	2200	888	2514	269	1942	441	160	3116	8254	845

Source: OECD BMD4 - latest available data (Czech Rep. and Poland: 2017; Hungary: 2016).

Hungary is an especially important target in regional comparison for Indian and Chinese FDI, while Korean and Japanese investors are relatively more present in the Czech Republic. Overall, the presence of investors from all the four countries is substantial in Hungary (above 1 billion USD for each country!), which makes Hungary a good case for our analysis.

#### *4. Research question, methodology, and data*

In this article we describe how we assessed whether the host or home country institutional impact dominates (if present at all) in Asian subsidiaries that operate in Hungary. We base our analysis on the VoC approach, thus we concentrate on the areas of industrial relations, employee relations, and vocational training. These areas are widely analyzed in the VoC literature, which helps us to compare the practices of Hungarian subsidiaries with those of the home countries of the multinationals under analysis. Thus we can rely on the results of previous studies wherein the abovementioned features of the various types of Asian capitalism and the dependent-market-economy (DME) type of capitalism (Hungary) were assessed. First, we use these results to present the institutional characteristics of the economies under analysis in the VoC framework. In the second step, the paper relies on detailed company case studies based on semi-structured interviews. After selecting the areas for analysis, we compiled two sets of questions (see Annex). These questions were used to conduct interviews with the representatives of seven Japanese, Korean, Chinese, and Indian-owned subsidiaries in Hungary (1-10 interviews per company) separately with blue-collar workers and with managers. There were two Japanese, Indian, and Chinese companies each, and one Korean firm in our sample. The semi-structured interviews were conducted by the authors between December 2016 and May 2019 (Table 1). Each interview lasted between half an hour (mainly blue-collar workers) and two hours (mainly managers). All interviewees were guaranteed confidentiality. The answers were noted down by the authors in detail and then analyzed. The number and length



of interviews did not justify the use of qualitative data analysis software or the application of any coding techniques.

We must note that our access to the subsidiaries in question was not without problems. In certain cases it took a long period of time to get in touch with the management of the companies (usually with the help of an intermediary; for example, a representative of an industry association, a ministry, etc.) This limited access explains the low number of companies in our sample. While our sample is understandably not representative, we were able to access some 'flagship' Asian-owned subsidiaries in Hungary and some of minor importance, thus we think our results are generalizable.

As noted, Hungary is a relatively important host to Asian FDI in the CEE region, which makes it a good case for analysis. All seven companies are operational in the automotive and/or electronics industry, which are the leading hosts of Asian FDI in Hungary (KSH, 2018). Concentrating on these two, highly interrelated industries helped us to assess the industry impact, which may be significant in the area under examination (Alkhalidi et al., 2014). All seven firms are among the leading investors in Hungary from their own countries. The information from the company interviews was supplemented by data from the balance sheets of the subsidiaries.

Table 3: Details of interviews conducted in the framework of the research

Company No.	No. of sites in Hungary	Year of establishment/ acquisition	Entry mode	Number of employees at present	Number of interviews managers/ blue-collar workers	Date of interviews
1	2 plants in one location, 1 in another	1989	green-field	2500 permanent + 500 seasonal	1 (HR manager)	12 April 2017
2	Budapest/HQ, countryside: 1 logistics center, 1 factory unit	2005	green-field	330 (white-collar, directly) + 2500 (blue-collar, indirectly)	4 (managers: HR, marketing PR, legal, logistics)	4 times between winter 2016 and April 2017
3	1	1991	green-field	3000 permanent + 200 seasonal	2 managers (HR and general)	April 2017
4	3 factory sites + 1 purchasing and warehouse	One in 2009; Second in 2011;	brown-field	2400 total	4 with managers & 5 with blue-collar	January 2017

Company No.	No. of sites in Hungary	Year of establishment/ acquisition	Entry mode	Number of employees at present	Number of interviews managers/ blue-collar workers	Date of interviews
	location	Third in 2016			workers	
5	3 plants + HQ in Budapest	2006 (All three)	brown-field	850 total	4 with managers & 4 with workers	December 2016
6	1	2017	acquisition (the acquired plant was established through a greenfield investment)	2000	2 managers & 1 worker	April-May, 2019
7	1	1998	green-field	650-700	1 manager	May, 2019

Source: Authors' compilation based on company interviews conducted in the framework of the research

Our qualitative research justifies why we relied on company interviews: in-depth information about employee relations and vocational training could only be obtained through interviews. The information collected from the interviews with Asian subsidiaries in Hungary is presented and compared in the three following areas: industrial relations, employee relations, and vocational training. Here we assess whether host or home country practices are dominant in the case of the subsidiaries.

This type of methodological approach of relying on interview-based company case studies has both advantages and disadvantages. An advantage is that we were able to obtain detailed quantitative and qualitative data in the target areas and their development over time. Conducting multiple interviews for five companies allowed us to compare the opinions of managers and workers in a given area – however, differences were not large. At the same time, the low number of companies in the sample results in the limited generalizability of our conclusions.

Overall, our contribution to the literature is threefold. First, we reinforce the applicability of the VoC framework for analyzing various areas of human resource management in local subsidiaries of foreign-owned multinationals. Second, we contribute to the VoC literature as well: our analysis supports the results of the VoC literature concerning the problem of whether a 'unified' Asian variety of capitalism exists. Our results also show the diversity of Asian economic models on the basis of information collected about Japanese, Chinese, Korean, and Indian subsidiaries in Hungary. Third, we show the dominance of host country characteristics over home country ones in the operations of Asian subsidiaries in Hungary.

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### *5. Do home or host countries' impacts dominate in applied business practices? An analysis of Asian subsidiaries in Hungary*

After having presented the main characteristics of Asian FDI in Hungary, we now turn to the question of management in our sample of subsidiary companies. From among the managerial functions we shall focus on various areas of human resource management (HRM), which is perhaps the most important issue when analyzing the interaction between home and host country culture and institutions.

We depart from the results of the already mentioned VoC-based theoretical and empirical analysis in comparing certain institutional characteristics of the Asian countries in our sample and the DME model which characterizes Hungary (Table 4), based on Witt-Redding (2013) and Carney et al. (2009) for Asian countries and Rugraff and Sass (2017) for Hungary. In the literature, the 'business system' (Whitley, 2000) and 'national business systems' (Morgan, 2001) approaches state that an institution's control over products, labor, and financial markets differ by national economy. In this approach, the national effects of the institutions of both the home and host countries of the multinational company are identified.

It is important to note here that the four Asian countries' 'home country VoC' differ to a great extent, as already mentioned. Similarities can be found among them in the dominant business group, which characterizes all the Asian countries under examination. These are domestically-owned 'networks' of companies (Witt, Redding, 2013). On the other hand, in the DME model the dominant actors in the economy are the local affiliates or subsidiaries of foreign-owned multinational companies (Nölke and Vliegenhart, 2009). One important similarity is a low level of workers' organization and low union density in all five cases. In other areas, the five countries differ from each other. For example, the level of state intervention, the contracts of employees, and the provision of vocational training is different. The level of state intervention is highest in the Chinese case, while in Japan it is minimal. In the case of Hungary, we can evaluate the level of state intervention as relatively low; however, its tendency to increase after 2010 has been well-documented (Mihályi, 2015; Szanyi, 2016; Sass, 2017). The contracts of employees differ due to the special Japanese type of lifelong employment on the one hand, and on the other due to the 'mixed' economies of China and India wherein state-owned firms use long-term-, and privately-owned firms short-term contracts (Witt and Redding, 2013). In Hungary, while on average contracts are longer term, there are many 'techniques' through which especially Hungarian-owned SMEs make these contracts shorter term (see e.g. Fazekas and Varga, 2005). Pay rises and promotion depend on different factors as well as skill acquisition. For example, skill acquisition is related mainly to on-the-job training in Japan and Korea, while in the other three cases job-seekers should accumulate skills before they enter the labor market (or while on the labor market). The frequency of training provided by the companies is related to the previous factor: it is more frequent in Japan and Korea and rare in the other Asian cases, while in Hungary it is relatively frequent, reflecting partly the asynchrony between education and the skills required for the actual jobs. Even here there is a large difference between the dominant multinational firms' local subsidiaries or large local firms that provide more training, and Hungarian-owned SMEs which do not offer such training

to their employees. We can also note that, in certain areas, two or three countries may be similar to each other, but overall there are very few areas in which all the Asian countries in the sample have the same characteristics.

Table 4: Institutional characteristics of the countries under analysis

	<b>China</b>	<b>India</b>	<b>Japan</b>	<b>Korea</b>	<b>DME</b>
<b>industrial relations</b>					
high or low share of expatriates among the leading managers of the subsidiary	not relevant				mixed, usually low
State intervention in wage bargaining	high	low-medium	low	medium	company-level, low
subsidiary-/company-level coordination about working conditions: yes/no	no	yes	yes	yes	yes
works council or trade union at the subsidiary: yes/no (which?)	no (low union density)	no (low union density)	no (low union density)	no (low union density)	Usually no (low union density)
<b>employee relations</b>					
long-term/short-term contracts	short (private), long (state-owned)	short (private), long (state-owned)	long	medium	long-term
<b>vocational training</b>					
vocational training exists at the workplace: yes/no	no	no	yes	yes	yes
overall education level: high/low	medium	medium	high	high	low-medium for blue-collar workers, medium-high for white-

	China	India	Japan	Korea	DME
					collar
<b>employees</b>					
turnover of employees: high or low	medium	medium	low	medium	rather high (blue-collar)
main basis of promotion and pay rises	relationships	relationships and seniority	seniority	seniority	merit, seniority
skill acquisition	private	private, some corporate	on-the-job training	on-the-job training, private	private (partly state-financed)
training at the firm: frequent/rare	rare	medium	frequent	frequent	relatively frequent

Source: based on Rugraff and Sass (2017); Witt and Redding (2013)

Note: DME: dominant actors: affiliates of foreign-owned multinational companies

Based on the above areas of analysis, we compiled two questionnaires on the basis of which interviews were conducted in the seven companies. The interviews were conducted with numerous persons from each company (between one and ten interviews per company; when only one interview was conducted, it was with a leading manager of the firm). On the basis of the information obtained from these semi-structured, questionnaire-based interviews, we compiled Table 5.

Table 5: Institutional characteristics of sample subsidiaries in Hungary compared to the features of the DME model

	China	China2	India1	India2	Japan	Japan2	Korea	DME
<b>industrial relations</b>								
high or low share of expatriates among the leading managers	high; manager pairs (one local, one Chinese)	low	low - 5 or 6 managers	very low - only one	relatively high - between 25-30	low	low - sharply decreasing since establishment	low
subsidiary-level coordination about wages (as opposed to involving headquarters of MNC)	yes, based on regional averages	yes, based on regional averages	yes	yes	yes (based on city average)	yes	yes, based on regional averages	yes
subsidiary-level coordination about working conditions: yes/no	yes	yes	yes	yes	yes	yes	yes	yes
works council or trade union at the subsidiary	neither (they don't have to due to the relatively	trade union	trade union	trade union - but not very strong	no trade union, there is a works council	no	yes, works council	usually no (low union density)

	China	China2	India1	India2	Japan	Japan2	Korea	DME
	small number of employees employed directly)							
<b>employee relations</b>								
long-term or short-term contracts	both (short-term for expats, longer term for locals)	long-term	long-term	long-term	long-term (except for leased workers)	long-term	long-term (but also some short term for interim workers, e.g. before Christmas, before Olympics, world championships, etc.)	long-term dominates
various "social" and other services for employees	yes (for example, food - even a Chinese chef)	yes (company card with discounts in shops and for certain services)	yes	yes	yes (company day, free hot meals, contribution to travel costs)	yes (special working schedules for the disabled, pregnant women and women with small children, bus services for commuters)	yes (even products as gifts)	yes
<b>vocational training</b>								
vocational training exists at the workplace	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
overall education level: high/low	High (they employ only white-collar workers)	Low (among the blue-collar workers but high among managers)	Medium: High school education (min 8 classes) preferred for plant managers; literacy skills for shop floor workers	Low: No requirements as long as workers have technical skills; enough if they are literate	Low: can be characterized as semi-skilled (blue-collar workers)	Low (among blue-collar workers but high among managers)	Low (among blue-collar workers but high among managers)	Medium - low (blue-collar workers)
<b>employee</b>								
turnover: high/low	High	Medium	Low; however, it is high during harvesting season	Low	Rather high among blue-collar workers (low among white-collar)	High below age 30	Rather high	Rather high
skills: general/industry-specific/ firm-specific	Industry-specific in the case of the white-collar workers. Maybe the same in the case of outsourced	General and firm-specific	General and firm-specific; industry-specific skills for mid-level managers	General and firm-specific	Firm specific, of limited use elsewhere	General and firm-specific	Industry-specific (initial skill can be rather general as they get vocational training)	Industry-specific

	China	China2	India1	India2	Japan	Japan2	Korea	DME
	blue-collar workers							
training at the firm: frequent/rare	Relatively frequent	Relatively frequent	Frequent	Rare	Relatively frequent	Frequent	Relatively frequent	Relatively frequent
<b>other</b>	informal manager pairs per area (one local, one Chinese); management works in open office	team-level shift-based bonus system	the effect of the Indian religion "Vastu" is strongly felt in the production process	signs and posters giving general instructions to workers; team-based atmosphere	working in pairs on the shop floor; management in open office	age allowance for older workers; loyalty prizes; "key worker" program	very clean environment; management in quasi-open office	

Source: interviews with managers and workers conducted by the authors

First of all, differences between the Asian countries under analysis in the various areas correspond to the findings of the empirical literature concerning whether a unique, distinct form of Asian capitalism exists. Similarly to the conclusions of Carney et al. (2009) and Witt and Redding (2013), the differences are much more apparent and stronger than similarities. This is seen, for example, in the number of expatriates, or the presence of works councils, employees' education level, etc.

We tried to exclude industry impacts by concentrating on firms in two very much interrelated industries: automotive, and electronics. Thus the industry effects can be ignored. Our results show that in many areas host country characteristics shape local outcomes to a great extent, while in other, less numerous areas, the home country impact dominates. For example, the share of expatriates seems to depend to a great extent on home country "traditions": Chinese and Japanese companies include a relatively large number of expatriates (the factor of time is not significant here as the Japanese factories were established a long time ago and the number of expatriates has been declining but it is still among the highest in the group. On the other hand, Chinese subsidiaries arrived more recently to Hungary). In contrast, the Korean firm and the Indian firms work with a significantly smaller number of expatriates (this is true for both Indian companies in our sample).

Wages and working conditions, on the other hand, are uniformly determined at the subsidiary level, which is clearly an impact of the host country environment. On the other hand, some home country characteristics remain. An interesting finding was the existence of a shift-based team-level bonus system at one Chinese company, which approach suggests Asian values (namely, collectivism) and is unlike the approach of typically individualistic European systems. Not only is group performance considered important, but also seniority, and this approach is widely applied in Japanese subsidiaries.

Furthermore, vocational training is important at all companies, even those in which the home countries do not often use this approach. This clearly reflects the impact of the host country environment; mainly the lack of (efficient) vocational training at specialized schools in Hungary (see e.g. Varga, 2018). On the other hand, due to the current labor market situation (labor shortage), wages and other rewards have become more competitive in Hungary. However, requirements for physical workers have been reduced (primary education is sufficient) given that such employees can be trained in processes quickly. This again reinforces the importance

of training, which is done relatively frequently at all of our companies, with the exception of one Indian firm.

In addition to vocational training, companies also engage in intensive training for white-collar workers (problem management, presentation techniques, professional training, and leadership training). Interestingly, no intercultural training events were reported at our sample companies, although according to several interviews the issue causes problems at numerous companies. For example, in Japanese companies employees get very little feedback, and corporate goals are not known at the operator level. On-the-job training methods are present in almost all companies. These complement and complete the training process.

Similarly, long-term contracts seem to be important due to host country characteristics (i.e. the need to comply with regulations in Hungary, which are relatively flexible in European comparison, but more 'rigid' compared to certain Asian countries (see e.g. Gyulaváry and Kártyás, 2012); the recent relative lack of labor force' and the importance attached to a 'secure' workplace by employees – the last factor was also emphasized by our interviewees), even in those cases where in home countries these types of contract are not preferred.

The long-term orientation of China and Japan is also reflected in their commitment to continuous development, as emphasized in our interviews. In addition to research and development, these companies place great emphasis on collecting and incorporating innovative ideas from employees, and even absorbing good practices from employees' previous workplaces, as our company interviews showed. They even financially reward new ideas, although the extent of the rewards are not related to the gains brought about by the idea. This can be evaluated as the transfer of home country practices to the host country.

We also consider the high degree of uncertainty avoidance to be a major cultural difference. The high level of the former indicates the need for rules. Although Hungary is characterized by a lower score<sup>4</sup> in terms of uncertainty avoidance compared to the Asian countries in our sample (see for details Hofstede, 2001, for example), such requirements for employees can be observed at Hungarian subsidiaries. According to one employee's response, compliance with these rules may sometimes be more important than performance itself, which again is a reflection of the use of home country practices.

An interesting issue is the presence of works councils and/or trade unions. While, as we saw, the level of unionization is uniformly low in both the host and home countries, in our sample we can find five cases where either a trade union or a works council operates at the subsidiary. Here we explain this 'deviation' by the fact that three out of these five companies were acquired from a German foreign owner, thus they may have maintained the heritage of the previous operational mode – reflecting the VoC and institution of the previous owner.

In the 'Other' section we delineated certain factors which we found reflect the impact of the home country culture in terms of being very different from the host

<sup>4</sup> See e.g. <https://www.reuters.com/article/hungary-labour-manpowergroup/hungary-suffering-worst-labour-shortage-on-record-survey-idUSL8N1CV24M>;

<https://www.ft.com/content/ac950cdc-5805-11e7-80b6-9bfa4c1f83d2>;

[https://bbj.hu/business/labor-shortage-among-biggest-problems-for-38-of-businesses\\_139994](https://bbj.hu/business/labor-shortage-among-biggest-problems-for-38-of-businesses_139994)

<sup>5</sup> <https://www.hofstede-insights.com/product/compare-countries/>



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country's (Hungary) business environment and culture. One of these was the location of management in open offices, except for in the Indian companies. In the Korean case, the management office was initially completely open, but due to the demands of Hungarian managers (who now predominate as the number of expatriate managers has declined considerably since the establishment of the company in the early 1990s), there are now walls between the managers' workplaces. In the other cases, offices are completely open – a feature not characteristic at all of Hungarian offices. Another interesting difference from the host country is the introduction of 'working-in-pairs' systems. In the case of one of the Chinese companies, this affects managers, and the organization is informal: Chinese managers are not denoted as 'Chinese human resources managers,' but every Hungarian manager knows who his or her Chinese counterpart is. In the case of the Japanese company, 'working in pairs' occurs on the shop floor, and the company and management have a deep interest in finding the right pairs whose combined working efficiency is highest. Another interesting feature which differs from the host country business culture is the much cleaner working environment. This is characteristic of all (larger) subsidiaries of foreign multinational companies, basically unrelated to their country of origin. However, we deem that this 'cleanliness' is at the highest level in the Korean company. We assume this is again a feature of home country traditions and practices.

An interesting finding is the diversity of the two Chinese companies. While this can be partly explained by their different entry modes (greenfield versus acquisition of a firm from a German company), another reason can be found in the literature. Zheng (2016) notes that Chinese multinational companies tend to consolidate overseas subsidiaries that operate in more developed countries less than other firms, which can be explained by the lack of strong ownership advantages and managerial expertise at handling international operations. Due to this fact we can trace a weaker home country impact in the case of one Chinese subsidiary (acquired), while the other Chinese subsidiary (greenfield) uses more of its own practices.

We found other features of 'implementing' certain home country business or operational practices in the host country in the case of the Indian companies. In one company, it is apparent to a Hungarian (post-socialist) eye that there are many posters and signs on the walls of the plant with different production-efficiency-related watchwords and slogans. Similarly, at the other Indian company the impact of Indian religion was strongly felt in the organization of the production process. According to the HR manager, Indian people are much more religious than Hungarians, thus it was quite strange at the beginning to realize that religion can have such a strong effect on the efficiency of mass production in the host country environment. According to the former, there is another important difference that stems from the cultural background: all the Indian employees subscribe to the values of the company. They try to emulate this in various ways in the Hungarian plants down to the lowest levels of hierarchy, thereby making employees realize how important it is to be loyal to the company and its values. In relation to this, the interviewee saw a significant difference between the Indian and Hungarian employees.

Overall, our analysis supports the use of the VoC approach and institutionalist analysis in understanding the impact of host and home country institutions on the 'mix' of management techniques used in the various areas of human resources management and industrial relations in subsidiaries of multinational firms. The

outcome of the interaction of host and home country institutional pressures results in various mixes of policies at the subsidiary level. We found that although firms are assumed to follow a standardized approach to managing labor across borders, the impacts of the local 'national business system' (Whitley, 1999) clearly dominates in the case of Hungary. On the other hand, some minor but interesting traces of home country practices can be found at each subsidiary.

## *6. Conclusions*

In this article we have shown that Asian FDI is quite substantial in Hungary even in regional comparison - in contrast to our beliefs based on previous data. This provided us with a good basis for the analysis of Asian subsidiaries concerning whether home or host country factors dominate in employee relations. Relying on the 'Varieties-of-Capitalism' approach, we analyzed this problem based on company interviews. In our sample we had seven electronics or automotive subsidiaries owned by Asian multinationals. The low number of firms in our sample may limit the generalizability of our results; on the other hand, through limiting the impact of industrial sector and including subsidiaries of diverse characteristics and size, the results may still be quite general.

Our analysis underlines the differences between the Asian home countries in terms of their institutions, and thus the fact that their capitalism cannot be 'squeezed' into one Asian variety. Concerning our main research question, we found that management and labor relations in these companies evolve under the influences and through the interaction of related home and host country culture, thus they contain elements of both. We showed that there are significant differences between the various Asian and Hungarian institutional characteristics, with the exception of low union density, uniformly present in the countries under analysis. We found that host country impacts dominate in almost all areas, although certain elements of the home country business environment are transposed to the host country plant and continued in the local environment (or attempts are made at this). The reaction of local workers and/or managers may change or at least modify the former if they differ fundamentally from the host country's local environment. This also underlines the importance of the host country's institutions. On the other hand, some elements of home country practices are successfully transferred to Hungary and maintained in everyday operations.

There are many ways in which our research can be continued. It is yet to be understood in which cases there are modifications of operating practices, and in which cases investors stick to their approaches and methods and try to find explanations for these. Another area for future research could involve examining the impact of the level of embeddedness or the mode of entry on the level of adaptation of local institutions. Furthermore, changes over time in the level and areas of adaptation may also be interesting. On the other hand, a comparison of Asian subsidiaries with subsidiaries from other home countries may generate further explanations in terms of the selection of areas of adaptation.

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## Questionnaire

### General characteristics of the company

- 1.1 Name of the company (can be anonymous)
- 1.2 NACE-code of main activities or main products/industry
- 1.3 Address of the company (at least city)
- 1.4 Legal status: company limited by shares, other:...
- 1.5 Year of foundation:
- 1.6 Who is the controlling owner and when did it acquire/establish the Hungarian subsidiary/affiliate?

### Management

- 2.1 On the basis of which factors was the location in Hungary chosen for the setting up of a subsidiary/affiliate?
- 2.2 Do you have a strong link with the HQ? What is the extent to which the company uses expatriate managers? How has that developed over time?
- 2.3 Have you found any differences between Hungarian-owned companies and Asian ones in terms of work organization and practices? What are the main differences between Hungarian-owned (or Western-owned) and Asian workplace?
- 2.4 How do you recruit workers? How important is employee retention? How significant is the role of the employment agency in the recruiting process?
- 2.5 What is the shop floor worker profile in terms of age, gender, and skills?
- 2.6 Does the company have a seniority policy? How significant/serious is the rotation of new employees?
- 2.7 Does a new employee induction program exist? What does it look like?
- 2.8 What attitudes do you want to see in workers? What do you value the most?
- 2.9 How do you manage the performance of workers? Does the company apply bonus schemes? Are there any non-financial incentives?
- 2.10 To what extent are Asian production methods are being implemented at your company? Do quality circles exist? How important are quality policies at your company? In what way is quality control exercised? How successful is the *kaizen* initiative at your company?
- 2.11 What is your opinion about typical Asian (for example Japanese) methods of production and management? How do employees find typical Asian management and production methods?
- 2.12 Does a trade union function at the site? How would you describe relations with trade unions?
- 2.13 Does the company have its own social policy? What does it look like?

### Questions for workers

- 3.1 For how long have you worked for the company? Why did you start to work here? How would you describe the labor market in your city/village?
- 3.2 Is this your first workplace after you finished your schooling? Where did you study and for how long?
- 3.3 What is your position at the company? Are there any career opportunities?
- 3.4 Are you directly employed by the company or through a temporary employment agency?



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- 3.5 In your opinion, are there any differences between the work organization methods and practices of Asian-owned companies operating in Hungary and other foreign-owned companies?
- 3.6 How many hours do you work weekly? How are these scheduled? Is overtime common? Do you receive extra payment for this?
- 3.7 Are you required to be multiskilled?
- 3.8 How often are training events organized for workers?
- 3.9 How much pressure do you feel from managers and supervisors? How much pressure do you feel from workmates and colleagues? How much pressure do you feel from the sheer quantity of work? How much pressure do you feel from quality assurance policies? What is your response towards involvement programs?
- 3.10 Has there been an increase in the speed of work?
- 3.11 What does the pay system look like? What does company welfarism look like? Are you a trade union member? How do you perceive trade unions?