Cultural Change and Intercultural Knowledge Creation

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Electrolux in Hungary

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Abstract

At the beginning of the privatisation the Hungarian freezer manufacturer, Lehel, was acquired by the Swedish Global industry leader, Electrolux. The author of the paper reported on the success and the challenges of the acquisition (Illes and Clarkson, 1997 a).

Electrolux is present in more than sixty countries and one of the world's largest producers of white goods. But not everybody knows that it is a Swedish company. One of the reasons for its success is that it becomes an integral part of local and national culture all around the world. The employees of Electrolux must learn foreign languages and they must be prepared to travel and relocate. The company considers diversity as a basic strength.

The Hungarian Lehel Refrigerator Company was found in 1952 and by the 1980s became Hungary's sole manufacturer of refrigerators. Lehel was claimed to be the highest quality producer of household appliances in Eastern Europe.

In 1991 Lehel was sold to Electrolux of Sweden as one of a number of key privatisations. There was uncertainty and fear in Lehel prior to during and right after the privatisation. There was a lot of mutual mistrust when the Swedes first took over, and issues of national differences started to surface. However problems were fairly quickly overcome and the merger was considered a success (Illes and Clarkson, 1997 a).

The success of the take over was well documented in the press in the mid 1990s. The current research was designed to look at the changes between 1996 and 2002. Six managers were formally interviewed and four informal conversations were held with administrative staff on the 3rd of June at Jaszbereny in Hungary. Particular attention was given to the organisational culture change within the Hungarian subsidiary over the past ten years.

The paper reports on the field trip and concludes that the Hungarian subsidiary has fully integrated into the global enterprise over the past ten years and makes a substantial contribution not only to the revenue but also to the knowledge based competitive advantage of Electrolux.

Introduction

Since the political and economic changes of 1989, Hungary has steadily developed into one of Central Europe's most attractive business environments, states the country commercial guide recently prepared by the American Embassy in Budapest. The level of political, structural and economics stability it has achieved demonstrates the success of its transition to a modern market economy (Hungarian Economy, October 2000). According to the Business Monitor International (Q2 2002) the country's GDP was USD 50.8 Billion in 2001 representing a 4,5% growth rate. Unemployment rate was 5,4%. Inflation rate fell rapidly from an annual average of 18.4% in 1997 to 14.3% in 1998 to 10.3% in 1999 and then to 9.2% in 2001 (Hungarian Economy, October 2000, and Business Monitor International Q2 2002).

With about USD 23 billion of Foreign Direct Investment (FDI) since 1989, Hungary has been a leading destination for FDI in Central and Eastern Europe. Almost 75% of Hungarian exports are produced fully or partially by foreign owned companies.

Hungary was and is a popular choice for investors with its reasonably stable political and economic system with its relatively stable political and economic system with its relatively good infrastructure and highly trained cheap labour (Illes 1997).
A recent study reveals that the real value of the Hungarian workforce is its relative cheapness and its high level of adaptability (Adler, J. 2002).

The investment and transfer of know how from the West to the East have been well researched and published. And now there are some reports on successful Central and Eastern European companies who have become successful outside their home markets (Liutho, K. ed. 2001).

Some Hungarian companies like Graphisoft have become important global players (Illes and Pataki 2001) others like Lehel have become part of a trans-national company and contribute to wealth creation within the framework of the parent company.

It would be an interesting study to investigate to what extent the strong national ability to adapt and survive and the above average level of creativity have contributed to the overall economic success of Hungary over the past ten years.

Janos Takacs, the Chief Executive Officer of Electrolux Hungary referred to the World Economic Forum's Economic Creativity Index in his presentation (2002). This Index attempts to gauge countries' involvement in innovation.
The index, based on observed data and survey results, measures the level of technology and the conditions favouring business start-ups. The most creative countries are also among the fastest-growing over the past decade. America owes its top ranking to pace-setting innovation –matched only by Finland – and the world's best start up environment. Though not among the top ten in innovation, Singapore gains its third place in creativity by leading the pack in importing technology from abroad. Wide disparities exist in South America and Eastern Europe: Bulgaria joins Peru, Venezuela, Columbia, Ecuador and Bolivia in the bottom ten of the complete list, but Brazil and Hungary rank higher than several members of the EU.

If we look at the World Competitiveness Yearbook (2001) we can see that Hungary is the 27th on the list between Japan (26th) and Korea (28th). On the same list Russia is 45th and Poland is 47th.

Research Background and Methodology

During my visit in June 2002 Electrolux-Lehel was preparing for the 50th Anniversary of the foundation of Lehel and the 11th Anniversary of Electrolux in Hungary.

At the entrance of the head office there was an exhibition highlighting the milestones of both anniversaries. The corporate history was captured in old photos and memorable dates, and the future direction was tangibly represented by the display of the latest, most popular and most innovative products of the company.

This paper is the outcome of a longitudinal study that started in 1992 as part of a research project that set out to study the privatisation and the economic transition from command to marked economy in Hungary.
A wealth of primary and secondary data have been collected over the past ten years including economic and sociological studies of the transition, annual company reports, internal and publicly available documents, interviews and telephone conversations.

The most recent interviews were conducted on the 3rd of June 2002 at Jaszbereny in Hungary. Six senior managers were interviewed and three informal meetings were held with administrative staff. Each interview lasted for an hour and detailed notes were taken. The notes were typed up in great details the day after the interviews. My previous experience at the company and at other Hungarian organisations taught me not to record the interviews. When there is a tape recorder on the table the conversation is very formal and the researcher will get only information that is probably already public knowledge.

Facts about Electrolux

The Swedish company Electrolux was established after World War 1 and started the manufacturing of the first Electrolux refrigerator in 1925. The company was introduced to the London Stock Exchange in 1928. In the late1960s the company has started an aggressive strategy of expansion through acquisition, which turned the company into the world's largest manufacturer of household appliances. By 1980s Electrolux had become one of the world's largest manufacturers of white goods with production facilities in Europe and North America, and a small presence in Latin America and the Far East (Electrolux, 1996).

In 1984 Electrolux had purchased Zanussi (Ghoshal, S and Haspeslagh , 1990). This acquisition which included subsidiaries in Spain made Electrolux the outright leader in the European market for household appliances. The purchase also made the Group number one in food service equipment. During the 1980s and 1990s Electrolux continued to expand both in Western Europe, America and other parts of the World.

They heavily invested in R&D and as a result in 1991 they introduced the 'energy refrigerator' which halves energy consumption for the user, and in 1993 the CFC-free (chlorofluorocarbon) refrigerator was launched.

In 1989 the huge market of Central and Eastern Europe was opened with great opportunities and potentials for Western companies. Electrolux was not unfamiliar with the industry in the region. In fact the Hungarian Lehel Refrigerator Company was a supplier of Electrolux over the 1980s so they had some sort of business link.

Facts about Lehel

Lehel was founded in 1952 to produce gun barrels and cartridges, and by the early 1960s began manufacturing household refrigerators and subsequently expanded production of related products. By the 1980s Lehel was Hungary's sole manufacturer of refrigerators for commercial and residential use, and was the country's largest manufacturer of chest freezers, radiators and cooling units. The enterprise had its headquarters in Jaszbereny, an agricultural centre on the edge of the Great Plain some three hours drive from Budapest. Lehel was claimed to be the highest quality producer of household appliances in Eastern Europe.
By 1991 Lehel was producing 300,000 refrigerators for domestic sale and 395,000 for export to Western European markets. The enterprise controlled 80 percent of the refrigerator market in Hungary with the balance supplied by imports. Lehel also gad a small share of the market for freezers, but many Hungarians purchased freezers in Austria since it did not produce sufficient quantities for the domestic market. Overall 65% of Lehel's sales were domestic, with another 35% made to Western Europe. Although sales to Eastern European markets, particularly Russia fell after the collapse of COMECON markets in 1989, Lehel had not been overly dependent unlike many Hungarian enterprises and later made good the loss elsewhere.

In 1991, after protracted negotiations, the enterprise was sold to Electrolux of Sweden as one of a number of key privatisations.

Facts about Electrolux-Lehel Hungary

After the take over Electrolux management made an early visitation and asked for a presentation on the company and local ideas for the future. Only one of the Hungarian team spoke any English, which necessitated an interpreter. Lehel's management realised that the language of Electrolux was English and if they wanted to keep their jobs they would have to learn it quickly.

Electrolux set up a number of task forces with mixed Swedish-Hungarian teams to study and report on the company's situation. No immediate changes were made in management positions and senior contacts were extended on the understanding that a performance evaluation would be made after eighteen months. In autumn 1991 an Electrolux accountant was seconded to help Hungarian management, and a little later several more 'parallel' Swedish managers and advisers took temporary posts. By the end of 1992 some 10 Swedes were in Hungary of which 6 were at the head office, but out of a total number of managers and supervisors at Lehel of 134.

Regular contacts with Sweden were extensive with daily visitors from different Electrolux's companies; there were also reciprocal visits and activities.

In fact two to three years was the time understood to be given for rationalisation and reorganisation. During that period they had to reduce the workforce, change the structure and the reporting system, set up two way communication channels between the shop floor and the top management and also eliminate the fear and uncertainty of the workforce.

Since 1991 the following key events happened in the history of the company in Hungary:

1992 Consolidation of the company, environment remediation

1995 Transfer of absorption production from Luxembourg
Transfer of bottle coolers from Germany

1996 Transfer of Box production from Spain

1997 Transfer of chest freezer production from Denmark
Transfer of vacuum cleaner production from Italy
ISO 9001

1998 Start of vacuum cleaner production,
Major fire hits TT plant in August
New name: Electrolux Lehel Kft.

1999 Re-opening of the new TT plant,
Opening of the new Logistic Centre
ISO 14001

2000 Sale of CR operations,
Capacity increase of Combi factory
Acquisition of McCulloch
'10 years tax holiday'

2001 Sale of the absorption business (1st of August)
10 years of Electrolux in Hungary

2002 Significant volume increase in Floor Care
50th anniversary of Lehel

These facts on their own tell a success story to those who have been involved and followed the exciting and often challenging transformation of Lehel into a proud and prestigious member of the Electrolux Group. However, the report on the field trip will look behind the facts and figures and puts a human aspect to the story by revealing some personal details and reflections of the individuals who have spent their past ten years (and sometimes considerably more) changing with and working for the success of this global corporation.

Electrolux – Lehel Values and Identity

In 1909, Alex Wenner-Gren founded the company that became known as Electrolux. He recognised that innovations that satisfy real needs lead to real market successes, such as the first commercially available vacuum cleaner, and the first mass-production refrigerator. His vision led to Electrolux products that today contribute to making life easier and more enjoyable for millions every day. (Straberg, 2002)

In the last 30 years Electrolux has become the world leader in household appliances through an aggressive acquisition strategy. As a result, the company claims to be "The World's Number 1 Choice".

With sales of SEK 135.8 billion, Electrolux is the world's largest producer of appliances and equipment for kitchen, cleaning and outdoor use, such as refrigerators, cookers, washing machines, chainsaws, lawn mowers and garden tractors. Electrolux is also one of the largest producers in the world of similar equipments for professional users. The group has two business areas, Consumer Durables and Professional Products, both of which include products for indoor and outdoor. (Electrolux Annual Report, 2001)

The Annual Report clearly states the future direction of the company. They aim to position the Group for profitable growth by:

- Driving down costs and complexity throughout the supply chain
- Improving performance in operations that are not creating value
- Consolidating the brand portfolio to fewer and stronger brands
- Understanding the needs of consumers better
- Accelerating innovation and product renewal to meet these needs
- Making sure that we have the right people

The new president and CEO of Electrolux, Hans Straberg was appointed on the 18th of April 2002. He made a Speech at the Top Management Meeting in February 2002. The text of his speech was circulated at management level across the whole Group.
In his speech Straberg promised to take Electrolux to the next level.
He defined Electrolux's mission in the following way:
" To be the world leader in profitably marketing innovative product and service solutions to real problems, thereby making the personal and professional lives of our customers easier and more enjoyable."

In order to turn this mission into reality Straberg suggests the following four commitments to the management and workforce of the company:

A commitment to "drive performance throughout the entire organisation"

"We talk too much about averages. We mix good and profitable businesses with those riddled with major problems. As a whole, or on the average, we look ok. However it is no longer enough. From now on, we will analyse every part of the Group: by sector, by product category, and by region. We will dismantle the house, so to speak; room by room, piece by piece. We will troubleshoot each individual part.

No stone will be left unturned. We will develop strategies for profitability, then implement actions." (Straberg, 2002).

A commitment to "marketing and innovation – to brand and products."

"Today the industry is capable of producing twice as many refrigerators as there are consumers who want to buy them. Some people argue that our industry is sliding down into a commodity swamp. This is not my opinion. (Straberg, 2002) We are not a commodity industry. To a large extent, we have created this myth ourselves, owing to a lack of need-based, consumer innovation. The Fact of the matter is that every time we come up with an innovation that solves a problem or fulfils an aspiration, a genuine demand for the product is created…..In order to grow profitably, we need to recognize that consumer needs are different. As The World's Number One Choice, we should be, and will be the most knowledgeable marketer of the world, understanding what consumers really need and want. Market segmentation, based on consumer insight, is fundamental to our success. At Electrolux, product development is a core process, and innovation is the key. It is the difference between creating superior value and competing on price alone. We will not innovate for the sake of it. We will focus on innovations that solve clearly identified problems. We will develop products and services with innovative features and functions, making life easier and more enjoyable."

A commitment to "superior talent management".

"Only the best people can achieve our objectives. Building an increasingly stronger executive talent base is one of our most effective competitive weapons. We need to attract, develop, and retain top talent, which, in turn, will develop Electrolux. It is absolutely vital that we succeed in this.
We need to manage talent in the same way as we manage other key Group assets. Careers will be Electrolux careers; not limited to organisational boundaries. We, at Electrolux, consider it not only a natural act, but even more so, a career requirement to move among sectors, functions and regions.
We are currently establishing a talent review process, set up much like our budget planning process: rigorous, with output and follow up. This will ensure that we leverage the group's talent pool properly. We will push the bar of excellent performance even higher, and be honest about unacceptable performance levels. We will commit to actions to strengthen our talent base, and rigorously follow up these actions. Finally, we will commit to an open labour market approach thus securing transparency of talent and opportunities alike." (Straberg, 2002)

A commitment to the "Electrolux Way" of doing things

"Electrolux is not a holding company. If it were stockholders would invest in each sector separately. This is not the case. They invest in the Electrolux Group precisely because the sum of the sectors, acting together in synergy, is worth more than the sum of the sectors each going its own way. It is our task then to ensure that this remains that way.
As an integrated organisation, it is essential that we optimise the group's resources, exploit the power scale, and share our global purpose. To help implement the

Electrolux way, we have defined Electrolux core processes: Purchasing, Products, People, Demand Flow, Support and Brand. These processes cross all sectors, all product categories, and all regions. These represent the minimum requirements, the joint glue that binds our company together, and a glue that goes beyond nationality or loyalty to one's own organisation. I have just completed the first round of sector board meetings, and feel an enormous sense of inspiration by all the opportunities we have in working together, across all sectors, product categories and regions. I have also witnessed non-productive, corporate politics in the group. I will not accept this. We have to focus all our energies on satisfying consumers and customers, and on battling competitors, not one another!" (Straberg, 2002)
On internal control the new CEO says the following:
We have had a fairly lax and naïve attitude here: Covering our tracks…if we need even do that much… is good enough. But clearly it isn't…. This is not just an auditing or financial issue, but an operational and managerial one that needs to be addressed starting from the very top. We need to tighten up here, and we will, for prevention is the BEST medicine. No more unpleasant, time-consuming, resource-intensive surprises.
I do not have an action plan, with timelines and responsibilities. I do, however, have a clear direction of where we are headed, and a clear logic of how we get there. I firmly believe we will succeed. The specific steps, plans and timetables are for you to develop and implement.
Our biggest challenge is not our competition, not the retailers, or the economy. No it is we, ourselves! Mark my words: Those who go the other way on this one-way street will not go unnoticed. (Straberg, 2002).

Issues of National and Organisational Culture

'The Electrolux culture is truly global with operations in Chanshas, China, El Paso, Texas, Motala, Sweden and Lehel, Hungary, cultures, customs and standards differ. Still, everyone is working towards the same goal – and for the same company. In order to make it work, it is necessary to have certain common standards and rules. On important document in this respect is the workplace Code of Conduct, recently approved by Group management….Areas that are covered include child labour, forced labour, health & safety, discrimination, harassment, working hours, compensation, freedom of association and environmental compliance. The minimum requirement in all areas is full compliance with relevant legislation, and all units are free to introduce and enforce stricter standards than those required by the Code of Conduct… The code also reaches outside the Group. According to the Code of Conduct all suppliers are required to comply and, in turn, guarantee that their subcontractors follow the same standards' (Electrolux Home Products Europe, 2002).

To study the past 11 years of culture change in Lehel will serve as an example of how successful the change of organisational culture can be in a new subsidiary.
First let us look at the challenges that Electrolux and Lehel had to face right after the acquisition.

After the privatisation of Lehel the fear in people was great. They thought that Electrolux was interested only in Lehel's market share and intended to use the factory as a warehouse. It was very difficult to persuade the employees that it was not so. In the past Lehel was a mammoth organisation with 264 managers at different levels. It had an extremely complicated structure and things happened very slowly. Initially the employees thought that the Swedish owners of the company will continuously give instructions in every field and will precisely tell them what they want. However, it was not so because the Swedish expected the Hungarians to come up with suggestions and recommendations for restructuring the company and making it more efficient. Both nationalities immediately noticed that there was a huge difference between cultures. Not only between the Hungarian and Swedish culture but between the different Western cultures as well. Through the privatisation within relatively short space of time people in Hungary got first hand experience of different cultures and the management style of different countries. It was inevitable that people in Lehel started to compare their experiences with colleagues who worked for a German, American or French company. Before long they realised that they were in a much better position then the colleagues at other companies so they started to proudly identify themselves with Electrolux.

To help the Swedes and the Hungarians to understand each other better at Electrolux a study was carried out (Hans Holmqvist, 1992) during June-August 1992.
The study was based on secondary research and interviews with managers who had significant first hand experience of managerial work with the other culture, based upon the premises that Culture affects *Expectations* (what we take for granted); *Motivation* (what we want); *Communication* (what we see and hear); *Thinking* (what we understand); and *Judgement* (what we like or dislike).
This study built on and referred to the research of Jozsef Marton published in 1992 that showed that the dominant management style in Hungary was autocratic. On the other hand a variety of different Swedish studies suggested that managerial attitudes were significantly less autocratic than in Hungary. Attitudes in Holmqvits study to one's own and the other managerial culture were measured on a nine point scale with opposites at each end like 'democratic' – 'autocratic'. The respondent marked on the scale what he thought was characteristic of typical Swedish and Hungarian managerial behaviour.

Perceptions differed on dimensions such as Team orientation vs. Individualistic, Fair vs. Unfair, Democratic vs. Autocratic and High informative capacity vs. Low. Hungarians perceived the Swedes as extremely team oriented, fair, democratic and informative. The Swedes agreed in their own view of themselves, but not to the same extreme extent. On the other hand, they had a clear perception of the Hungarian management style as much more of the individualistic, unfair, autocratic and low informative styles. The Hungarians saw themselves more in the middle between the two extremes, and regard Swedes as being extremely well planned, fact oriented and systematic. Swedes agree more moderately in principle.

The interviews in 1996 (Illes and Clarkson 1997 a) revealed that the Swedes saw the Hungarian management style as particularly good at detail and implementation plans while Swedes tended to improvise a little too much according to the Hungarian observers. There was also a tendency that the Hungarian managers saw themselves as more sensitive to feelings and spontaneous than the Swedes had seen them. Each of the two cultures believed that they had a greater interest in people than the other. Holmquist noted that an Electrolux manager would, if not careful, delegate beyond the limit where a Lehel manager found himself comfortable and in control of the situation. On the other hand, a Lehel manager would tend to delegate to an Electrolux

subordinate less than expected. Moreover the Lehel manager expected a clear, formally correct hierarchy where authority was clearly defined.
The Electrolux manager was more used to informal, matrix like or project defined organisations, and to operate without clear orders, taking the authority and responsibility needed in the situation. This was an alien concept to the Hungarian company.

Holmquist says that “Swedes typically avoid face-to-face conflicts and like the Japanese, Swedes strongly tend to favour agreement and consensus. When this general cultural trait is confronted to a Central European openness about conflict, differing interests and differing preferences, it introduces an element of false agreement. The Hungarian manager is easily misled to believe that agreement or acceptance is at hand while in fact his Swedish counterpart is struggling to control and not show his anger.”

In Lehel, as in most Hungarian organisations, every decision was taken from the top down and the culture rewarded obedience and following orders and instructions. Compared even with most western cultures, the Swedish company culture normally expects more of own initiatives on all levels in the company- “ almost to the extent of a rule that you will never be punished for initiatives taken with good intentions even if they turn out to be mistakes.” Moreover, an individual may have difficulties in being promoted or getting higher level tasks if not taking initiatives, and may even be reprimanded for not taking necessary initiatives or decisions. In general, as well as in Electrolux, Swedish management practice tends to avoid formal job descriptions, since they depress the use of initiative, and promote bureaucracy, lack of flexibility and lack of focus on what is important in the actual situation.

In Elextrolux a manager is familiar with the operations, the informal rules and norms in the company, and that his function and he himself is known and accepted in the organisation. Authority is more personal and functional than formal. The Electrolux culture also differs strongly from Lehel practice with regard to formality of information. “A short meeting in front of the coffee machine, five minutes discussion passing a managers room, a telephone conversation, a hand written answer to a fax, almost anything was and is accepted at Electrolux. Which implies that you trust the other party to fulfil and respect an agreement made.” In Lehel decisions had to be made in a formally correct way and also be documented accordingly. After all, watching one’s back had been a way of life under the old regime. (Illes & Clarkson 1997 a)

“ In a company like Lehel the organisational reminiscences of former value systems and norms, counter norms, trust, mistrust, patterns of communication and lack of communication, management practices etc. etc. formed a complex situation for change and development.” (Holmqvist, 1992)

The make over of Lehel

The interviews revealed that Lehel has gone through a major change in almost every respect over the past eleven years.
Some aspects of the change were visible quite early and others happened behind the scenes in the hearts and minds of the employees. Lehel has been a main employer of

the small town of Jaszbereny and it has always had a key role in the life of the community. Everybody in town has some relationship with the company. Even those who are not employed directly by the company could work for one of the suppliers or just simply use the library, museum or visit the Zoo that is sponsored by Electrolux-Lehel.

The company gives the balanced impression of continuity and constant change. When I entered the main building I met the same lady at reception who greeted me five years ago when I last visited the company. During my visit I met someone who has been working for the company for 43 years. Another person told me that this was her very first workplace and she has been with the company for 35 years.

Tangible aspects of culture change

Before the privatisation Lehel was a socialist large enterprise with 4600 employees that operated on a cost centre basis. After the acquisition the number of employees was reduced to 3100. At the privatisation Electrolux gave a lump sum as final settlement to those who were prepared to set up their own enterprises and be the suppliers of the company.

The downsizing went without any problem partly because of the attractive financial settlements and partly because when Electrolux decided to sell off all the productions of Lehel that was not in line with the key business of the Group the employees managed to keep their jobs under new ownership.

The whole accounting system had to be changed. Now they prepare accounts both for the Hungarian tax authorities and for the Electrolux group. They follow international regulations and prepare a balance sheet every month and also a quarterly report on performance. They calculate profitability on the Return of Net Asset basis.

The legal structure and the management of the company have been separated.
The homogenous activities have been merged to independent units. These are seven of these units at Electrolux Hungary at the moment. These units have their own assets and are accountable for their own performance. There is an internal bank and the divisions can deposit their profit in this bank and earn interest or if they need an interim loan they can borrow from this bank and pay interest.

The product lines have their own objectives. Each follows a so-called value creation model. The outcome of this model has to be positive. The product lines are in healthy competition with each other and do their best to over perform each other not only in Jaszbereny but also in comparison with other nationalities in the Group.
As a result the overall performance of this subsidiary makes a substantial contribution to the Group's revenue and also gained reputation for being the number one in Europe for the quality of production.

Electrolux now has a head office for the European divisions in Brussels. It is said to have strategic importance for co-ordinating activities in Europe and all transactions have to go through this centre. It could be argued that for a global company of this size it is important to have an office in Europe's capital. However, it is also true that corporate tax is only 5% in Belgium and it is much higher in Sweden, so this new European centre provides a definite financial advantage to the Group.

Let us look at the vacuum cleaner manufacturing now. As part of the privatisation deal Electrolux agreed to introduce the production of a new product to Hungary. This product was the vacuum cleaner. They started the production with 10.000 vacuum cleaners in 1992. The production was kept at a low, almost symbolic level till 1996. Then the Italian subsidiary was closed and the production was relocated to Jaszbereny. In 1996 Electrolux decided to shut down its production in Luton, England. One third of the production was relocated to Hungary, one third to the USA and one third to Sweden. The reason for this change was partly the cost of production and in the case of the huge American market they wanted to bring the production closer to the customers to reduce transport costs. In 2001 the company decided to shut down its German vacuum cleaner factory a relocated the whole factory to Hungary. At the moment the Hungarian vacuum cleaner employs 300 people and it is the biggest factory in Europe.

Changes in the volume of vacuum clearer production:

Year	Number of vacuum cleaners produced
1992	10.000
1997	170.000
1998	340.000
1999	670.000
2000	915.000
2001	1.150.000
2002	1.700.000 (forecast)
2003	2.200.000 - 2.300.000 (forecast)

The vacuum cleaner production has a seasonal fluctuation. Production is directly linked to international sales. Sales figures are usually high between January and April and between August and December. During the peak times the company employs between 100-150 unskilled workers for the assembly lines.

The plan of production is done on a 3+1 days basis. It means that the central warehouses keep 15 days worth of products. The sales figures are reported from the shops daily and kept in a central database that the factory has access to. The production plan is made for three days at a time and then they have one day to make adjustments to the production for the next three days. It is a very flexible system. In a week the factory can produce any amount of vacuum cleaners to refill the stocks in the warehouses all over Europe. They allow another week for logistics.

Less Tangible aspects of Culture Change

Kalman Benke the HR Director of Electrolux-Lehel Hungary has been working in the Jaszbereny factory for 42 years. He had various positions in the company and has been in managerial positions for 35 years. Benke knows everybody at the company and has a wealth of tacit and explicit knowledge of the organisation. When I asked him about the major changes over the past ten years he said the following:

“Before the privatisation orders and instructions have always come from above. There were 10 levels of the organisational hierarchy and there was a one way communication system from the top to the bottom.”

At the privatisation Electrolux has involved the local management in the change process. Initially there were 4 Swedish managers in Hungary and an ex-patriot CEO who introduced an open door policy and did his best to eliminate fear and build trust between the head office and the Hungarian subsidiary.

Electrolux kept 70-80% of the previous management and involved them in the change process and decision making right from the beginning.
The management of Lehel was competent and strong even before the privatisation so the new owners could build on the existing human resources.
Benke said half jokingly that Lehel has always been a profitable company because the management team had the philosophy to “escape always forward”.

In 1992 there was a 6 months management-training programme run by a team from the University of Milan. The aim of this programme was to explain the Electrolux group structure, operation and culture to the Hungarian managers. It was also a mini MBA and covered standard Western approaches to finance, marketing, HRM, logistics etc. The workshops were run in English with simultaneous interpretation because the command of English was not equally high for all members of management. This programme proved to be very successful and helped to build the level of confidence in the Hungarian managers.

While I was waiting for my meeting with the CEO I had a general conversation with the PA of the CEO. Then I sat down and started to look through the weekly in house magazine of the company that was displayed on the coffee table.
After a few minutes a young woman in her late twenties came in. I did not even look up as she said hello to the secretary in Hungarian. Then when they started to talk about an appointment and returning some keys I noticed a slight foreign accent in the young lady's Hungarian so I looked up. As I learnt she was the only Swedish employee of the company. She has been working in Hungary in the vacuum cleaner factory for two years as a subordinate and decided to come to Hungary for the work experience and in the mean time made an effort to learn the language.

Janos Takacs has been the CEO of Electrolux for 5 years. He built on his predecessor's good work by continuing the open door policy and delegation of responsibility. Under his leadership Electrolux Hungary became from a new member to a key member of the Group.

Takacs is a charismatic leader who has all the attributes of a Level Five leader (Collins, 2001) and keeps the right balance between personal humility and professional will. When I was talked with him and indeed with anybody else in the organisation I observed a sense of pride and a high level of self-confidence.
These people do not suffer from the “disease of inferiority complex” that was such a noticeable feature of the Hungarian managers in the past. The managers that I met have a strong knowledge of their self-worth and capabilities. They also signalled that they were confident in themselves and in their future within the company or indeed if needed to be outside the company.

Intercultural teams and individuals in knowledge creation

For a sceptical reader and who looks at culture from a functionalist approach the differences between Elextrolux and Lehel at the time of the acquisition might seem to be far too big to predict such a smooth transition and such a great success in 10 years.

Though Hofstede's (1980) five dimensions of national cultural differences (Power Distance, Individualism- Collectivism, Masculinity-Femininity, Uncertainty Avoidance, Long-term-Short-term Orientation) became a part of common knowledge in organisations we believe that they only provide a good first sense of what culture is. The quantitative approach to culture is useful only to some extent since it might work as a general indicator of the problems that could rise in cross-cultural management. The application of Hofstede's framework automatically entails a rather rigid categorisation and thereby also a risk of initially placing people in the wrong groups. Tayeb (2000) argues that national culture is a vibrant and dynamic concept. Thus, placing national cultures in boxes such as Hofstede's five dimensions will only create a stilted picture where opposites are emphasised resulting in some form if simplistic categorisation. We support Tayeb's belief that national cultures contain opposites according to situations. Holden (2002), who emphasises "contextual embedding" as a determinant aspect of behaviour, has voiced a similar line of critique. Holden claims that it is not possible to look solely at, for instance Hofstede's mental programming without taking the context into account. Only in situations where a broader view is needed, Hofstede's dimensions can be somewhat successfully applied. However, in the situations arising in companies in everyday work-life they only serve as basis for stereotyping and generalisation since Hofstede's view on culture-as-differences and a means of categorisation is seen as far too narrow. The origins of cultural differences cannot be stereotyped since a culture clash is determined by more variables than five dimensions.

It is more helpful for companies to study culture from a social-constructivist approach. Such an approach implies that culture is created through relations. However, due to the subjective nature of relations, "cross-cultural collaboration and integration processes between organisations cannot be predicted with any certainty" (Holden, 2002 p.57). Toni Watson, a social constructivist, might therefore provide a more facetted view on the processes at Electrolux in Hungary. The culture of the subsidiary results from a process of exchanges between the various cultures, or rather between the members of the company and the subsidiary that are also in constant negotiation and exchange with their own cultural identities. This indicates that the outcome of the cooperation between two national cultures cannot be predicted. Rather, it is a social interaction and thus it ought to be "lived" not just described.

Hofstede's framework seems to be rather simplistic, static and binary and Watson's framework is more dynamic and accounts for plurality. The two frameworks seem to supplement each other. Hofstede defines culture as the collective programming of the mind, which distinguishes the members of one group or category of people from another. This definition implies that culture is something learned. According to Hofstede, people are mentally programmed to the national culture which they are brought up and he claims that "unlearning" is necessary in order to change a person's

culture (Hofstede,1994, pp3-19). We agree with Hofstede that culture is nationally bound to a large extent, but we disagree with the idea that unlearning is necessary in order to change the culture of an individual.
On this point Watson's emphasis on social interaction (strategic exchange) is more in line with our view on culture. As Watson explains it, culture has to do with a complex process of negotiation and constant exchange between constituents. His emphasis on strategic exchange means to highlight that culture develops as a process of negotiation and exchange – culture, then, is something people do. Watson also argues that culture is a set of means and that people are in a constant state of dialogue about what those meanings are (Watson, 1994 pp 86-134).

This sense of constant dialogue and negotiation is very much part of the organisational culture of Electrolux-Lehel in Hungary. There is an open flow of information and there is very little noticeable barrier to communication.

Conclusion

My visit to Electrolux-Lehel Hungary gave me a very valuable personal experience of unlimited potentials of human groups who are willing to change in order to create value both for the organisation and the individual.

Peter Drucker in his famous vision in the 1980s (Drucker, 1988) imagined the organisation of the 21st century as follows:
"Twenty years from now, the typical large business will have half the levels of management and one-third the managers of its counterpart today. Work will be done by specialists brought together in task forces that cut across traditional departments. Coordination and control will depend largely on employees' willingness to discipline themselves."

The employees of Electrolux-Lehel Hungary have certainly displayed an outstanding will to discipline themselves and took on board new concepts and new procedures with an open mind both in the field of coordination and control.

A recent company study (Tormanen et.al, 2002) that compared the culture of the Swedish and Hungarian subsidiaries highlighted the strong goal orientation, the high level of motivation and the fighting spirit of the Hungarians. They are eager to learn and have a high level of open mindedness. Electrolux-Lehel is an extravert organisation that keeps a strong focus on competitors. They are well organised, service minded and value harmony.
The Swedish side of the organisation is more introvert and focuses on internal competition rather than competitors. They are also open and honest employees who aim for unity and harmony in the organisation.

One of the interviewee also mentioned that there was a considerable culture difference between the 'old' fridge manufacturing part and the 'new' factories of box freezers and vacuum cleaners in Hungary.
According to this observation the fridge manufacturing factory is still closer to the classical or scientific management methods whereas the new factories are closer to the Swedish model of managing through Information Control. In the latter parts of the

organisation special attention is given to the free flow of information to ascertain that everybody has the right information to make the right decisions.

It will require future research to investigate the nature of these differences within one subsidiary and the impact they might or might not have on the overall performance and culture of the organisation.

Our investigation so far seems to confirm that the social constructivist approach of culture studies reveals many interesting facets of the organisational culture.
Further empirical research might even lead us to the re-definition of culture. The transformation of Electrolux-Lehel in Hungary made me to realise that:

Culture is what we are and what we do. It is rooted in our nationality, but it is changeable rather than static. We affect our cultural development by engaging in contact with others, and other people affect our culture by exchanging their opinions with us.

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