
**THE TRANSFORMATION OF EMPLOYMENT RELATIONS SYSTEMS IN CENTRAL
AND EASTERN EUROPE**

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ABSTRACT

During the 1990s employment relations systems in Central and Eastern Europe (CEE) experienced a complex, multilevel process of transformation. In this article, we discuss the transformation of employment relations systems under the impact of privatization, foreign direct investment, and pressures for the accession to the European Union enlargement at the enterprise, industry-, and national levels. We argue that the pattern of embeddedness of ER in the former planned economic system, the developmental role of the state during the period of transition and the timing of the changes at a moment of intensified international competition resulted into unique configurations of employment relations in the different CEE countries, not necessarily converging toward the incremental adjustments of Western European employment relations.. Key factors bound to further introduce transformations convergent with Western ER models include the growing presence of multinational companies and the perspective of the EU enlargement.

Employment relations (ER) are widely recognized as key components of the national business systems and the distinctive, structural characteristics they imprinted to various Western economies have been extensively analyzed (Whitley, 1999). By contrast, the analysis of ER systems has received little systematic attention in the context of the CEE (Central and Eastern Europe) economies. This is due in part to the lack of adequate theoretical frameworks to address their organizational evolution from planned to market economies and in part to the scarcity of reliable comparative data across a region undergoing swift transformation. Understanding their specific origins and dynamics would shed light on an important element of the emerging CEE business systems.

The existing literature on the transformation of ER in CEE can be divided between micro-level approaches that analyze the transformation of ER as part and parcel of the changes in the structure and practices of the enterprise, and approaches that view the transformation of ER as part of the macro-institutional change that characterized the ‘transition’ decade. The first approach focuses on the restructuring of the human resources (HR) managerial practices; the second analyzes the organization of labor and employers’ interests in unions and employers’ organizations, and the repositioning of the State on labor governance issues. Both approaches emphasize that, with some variation from country to country, a weak institutional demarcation between labor and management represented the starting point in the formation of new systems of ER in CEE. In the absence of a well-identified labor-management divide and of the corresponding Western institutions of labor governance, existing Western ER theories and models provide only limited insight into the processes of ER transformation in CEE.

At the enterprise level, privatization brought the issue of labor governance at the forefront, but its speed and inevitability did not close the institutional gap between the Western and Eastern structures of ER. Above the enterprise level, corporatist views in the European continental tradition, placing unions and their hierarchical, cross-industry organization at the core of the ER systems faced the legacy of unions as ‘transmission belt mechanisms’ – state-controlled institutions “with integrative structures and functions” (Poole, 1986: 117). Nevertheless, what we observe is that in spite of diffuse and largely informal webs of labor-management relationships inherited from the period of planned economy, a process of formal institutional differentiation of management and labor become clear post 1989.

There exists a rich literature on the employment relations (ER) systems of the different CEE countries. However, most studies tend to focus on one country at a time and examine a particular stage or factor of transformation. In this article, we propose an analytic framework to systematically study the transformation of ER systems in CEE. Our goal is to identify and outline the existing trends in the evolution of ER systems, at a time when most of the CEE countries are concluding a difficult period of transition to market economies and are preparing for integration into the European Union (EU). In this context, our analysis focuses on both the structural and policy consequences of these processes for the transformation of ER.

With restricted autonomy and distorted functions during the period of planned economy, ER in CEE experienced a complex, multilevel process of transformation during the 1990s. In order to understand the breadth of this transformation, we conduct our analysis at distinct analytic levels and, in line with the comparative literature in industrial relations, we decompose

the process of change in its level-specific mechanisms and results (Locke and Thelen, 1995; Regini, 2000). Specifically, we examine how planned economy organization (roughly set at pre-1989) in CEE influenced market-economy ER and analyze how three country-specific factors might also influence market-economy ER characteristics. These are the impact of privatization, foreign direct investment, and European integration at the enterprise-, industry-, and national levels. We show that the pattern of embeddedness of ER in the former planned economic system, the developmental role of the state during the period of transition, and the timing of the changes at a moment of intensified international competition gave ER in CEE unique characteristics, not necessarily converging toward Western European models.

In this article data and empirical evidence are mainly drawn from sources and the literature analyzing the following six countries: Bulgaria, Czech Republic, Hungary, Poland, Romania, and Slovakia. Notwithstanding variation across countries, we believe that their ER systems display sufficient similarity to allow for a meaningful area analysis. Despite important socio-economic, cultural and historical differences, these countries had closely integrated economic systems during the period of planned economy and displayed certain simultaneity in the adoption of their general economic policies. After 1989, they were exposed to different pressures for economic restructuring and political transformation aimed to establish valid market economies.

This article is organized as follows. First, we present the analytical structure that is framing the entire paper. Second, we discuss systematically the common factors defining ER under the planned economy and how they might have influenced future ER. Third, we analyze change in the systems of ER in CEE triggered by privatization, foreign direct investment and accession to the European Union. We conclude suggesting some potential trends in the transformation of ER in CEE.

I. A Proposed Analytic Framework for the Employment Relations Systems in Central and Eastern Europe

To examine the transformation of ER systems in CEE we propose an analytic framework that emphasizes two key dimensions: 1) the dynamics of the process in time and 2) the structuring of a multilevel system of ER after 1989. The starting point of the transformation is the state of the system of ER as developed during the period of planned economy (roughly pre-1989). With the transition to market economies, a multitude of factors, both domestic and international, influenced the multi-level structuration of new systems of ER across the region.

We conceptualize the system of ER of the planned economy period as a largely domestic phenomena strongly controlled by State action. State intervention is shown to have pressed for weak differentiation between labor and management at the enterprise level and for labor governance institutions that suppressed the expression of conflict against both management and the State. This is exemplified in Figure 1.

We argue that several key factors transformed the systems of ER in the post-1989 period as shown in the second part of Figure 1. We suggest that the weak management-labor divide of the planned economy lost ground after 1989 and that labor and management constituted

institutionally distinct domains. The three major factors of change most often identified in the literature are: 1) the processes of privatization, 2) foreign direct investment (FDI) and globalization, and, more recently, 3) the processes of adhesion to the EU and internalization of the EU requirements in the realm of ER.

These forces impacted the various levels of the systems of ER with often contradictory dynamics, depending on the sensitivity to path-dependency across the levels of the ER systems. For instance, the efforts toward European integration manifested mainly at the national level and resulted in the birth of macro-level institutions (such as tripartite bodies) resembling the corporatist institutions of the West, while the effects of FDI in the realm of ER were, especially in the case of MNCs, mainly an enterprise phenomena (the reshaping of the HR managerial practices), with much less impact on national level institution building.

Despite the fact that we follow a broad definition of employment relations as the “regulation or governance of the employment relationship” (Marginson and Sisson, 2002: 671), we believe that the specification of the level of analysis in the study of ER systems is important for a number of reasons. First, there is a tendency in the existing literature on ER in CEE to indistinctly use the concepts of labor and management to refer to classes or overarching social categories (with class identity often assumed), as well as to actors or stakeholders in the enterprise taken as a unit of analysis. For instance, some authors examine labor governance problems and the clarification of labor’s position inside the enterprise (Martin, 1999), while others focus on societal corporatism, processes of democratization and the clarification of the labor class’ position in the society at large (Ost, 2000; Ost and Crowley, 2001). This might lead to a substantive problem, common in system approaches to the process of change: the lack or presence of change assessed at one level is assumed to characterize the entire system (Mayer and Whittington, 1999). Our conceptual clarification of the level of analysis in the study of the ER systems transformation in CEE allows for a better understanding of their overall restructuring and helps in the identification of the specific influence of the various factors of change.

Second, although we make a path-dependency argument, meaning that we believe there is inertia in the process of change and that long-established and -enforced social mechanisms have the tendency to reproduce themselves under changed circumstances, we point out that each level of the ER system has different path-dependent sensitivity. For instance, although we argue that the change in the structure of property did not disturb the former managerial HR practices and routines in radical ways, we also show that privatization through foreign direct investment disrupted to a larger extent the existent HR practices than the insiders-dominated privatization methods did. Briefly stated, path-dependency takes place selectively and with different intensity across the levels of the ER systems.

Third, our theoretical framework for comparative ER research in CEE stresses the need for identifying the ‘locus of conflict’, or the so-called ‘sticking points’ (i.e. critical, foundational issues defining actors’ identities) that characterize national systems of ER (Locke and Thelen, 1995; Regini, 2000). The “sticking points” approach argues that by identifying the locus of conflict in each particular ER system, the entire logic of national ER systems formation can be traced back and the understanding of the overall comparative picture can be refined. Nonetheless, given the insufficient conceptual clarification of the sets of elements and levels of

structuring of the ER systems in CEE, this methodology was so far restricted to the comparative ER research of advanced industrialized countries.

Path-dependency and pre-1989 Employment Relations

A premise of our argument is that current systems of ER in CEE are strongly embedded in the rationality of the pre-1989 institutional arrangements of labor governance. In particular, the present devolution of the governance of ER at the enterprise level is a resilient continuation of the ER characterizing the planned economy and of the successive attempts to enterprise reform. Specifically, we identify the common ER institutions, practices and routines in shaping change, that is, the sources of path-dependency.

Starting in the mid 1960s—when the Stalinist model of socialist economy began to erode—enterprises were subject to numerous reforms that mirrored the varieties of socialism emergent in the region. The main challenge faced by the planners was that economic information was stocked at the enterprise level while the price mechanism was blocked and therefore did not help disseminate this information. As the economic information could not be released through the price mechanism and its substantial flexibilization was denied (Nove, 1977), planners turned attention to the working of the enterprise. Consequently, flexibilization in the operation of the enterprises was at the core of the reforms (Hare, Radice and Swain, 1981). It was believed that better *managerial* coordination inside state-owned enterprises (SOEs) would generate the much-needed overall economic coordination that the plan failed to achieve. In terms of ER, a solution consisted in the design of complicated reward-systems at the enterprise level that moved away from the prevalent piecework pay system toward systems where the enterprise profit would represent the basis for base wage enhancement (Maresse, 1981; Petkov and Thirkell, 1991). This “incentive component” of the wage was expected to increase collective productivity at the enterprise level. However, the policy of full employment and centrally established restrictions on wage determination remained in place even in the most reform-oriented countries (Hungary in particular). This explains why for instance hiring, retention or termination HR practices were only an administrative formality.

The 1970s and the 1980s witnessed the gradual transformation of socialist enterprises into autonomous economic entities. Albeit still in the overall context of a planned economy and in the absence of the free market mechanisms, the principle of self-management and enterprise autonomy in decision-making was accepted and adopted at various degrees by the existing Communist parties (Brus, 1990). This transformation reconfigured the relationship between labor and management inside the company as well as the relationship between state/party officials and the management of the SOEs. In fact, in countries that attempted to give substantive enterprise autonomy (such as Hungary, Poland and to a certain extent Bulgaria) the incipient differentiation of labor, management and the state as distinct actors of the ER systems preceded the fall of communism.

The fact that some HR practices were virtually non-existent in the East or that given the general economic framework in which they were supposed to operate there was no need to develop them at all, made the Eastern work context to increasingly diverge from the sophistication in HR practices achieved by developed industrialized countries. For instance,

managerial conceptions in the East were characterized as both “pre-Tayloristic” in the sense that they gave much informal autonomy to the worker and as fascinated with Taylorism in that they rejected real employee participation or empowerment (Thompson and Smith, 1992:4-8).

The informality of ER was explained by the typical uncertainty with which enterprises had to cope under the planned economy. Reciprocal concessions between labor and management counterbalanced the uncertainty related to the alternation of periods of high and low production. Hence, a pattern of informal bargaining between labor and management developed as a mechanism of uncertainty-reduction. At the same time, the enterprise – State relationships as mediated by the plan subdued the development of unions as institutions of workers interests’ representation. Unions played the role of mechanisms associated to the plan instrument. The literature describes them as “transmission belt” mechanisms for the high-level decisions taken by the communist parties that needed to be implemented at the enterprise level (Schienstock and Traxler, 1997). A major consequence, especially relevant for the post-1989 period, was the lack of industry level negotiations. Some countries introduced workers councils (for instance, Hungary and Poland) or adopted more participatory work systems such as the brigade-system (particularly relevant in Bulgaria) but these measures stopped halfway and were often formalistic. Consequently not only were ER at the enterprise level differently originated in the CEE countries *versus* the West, but they were also differently organized across the levels of the ER systems.

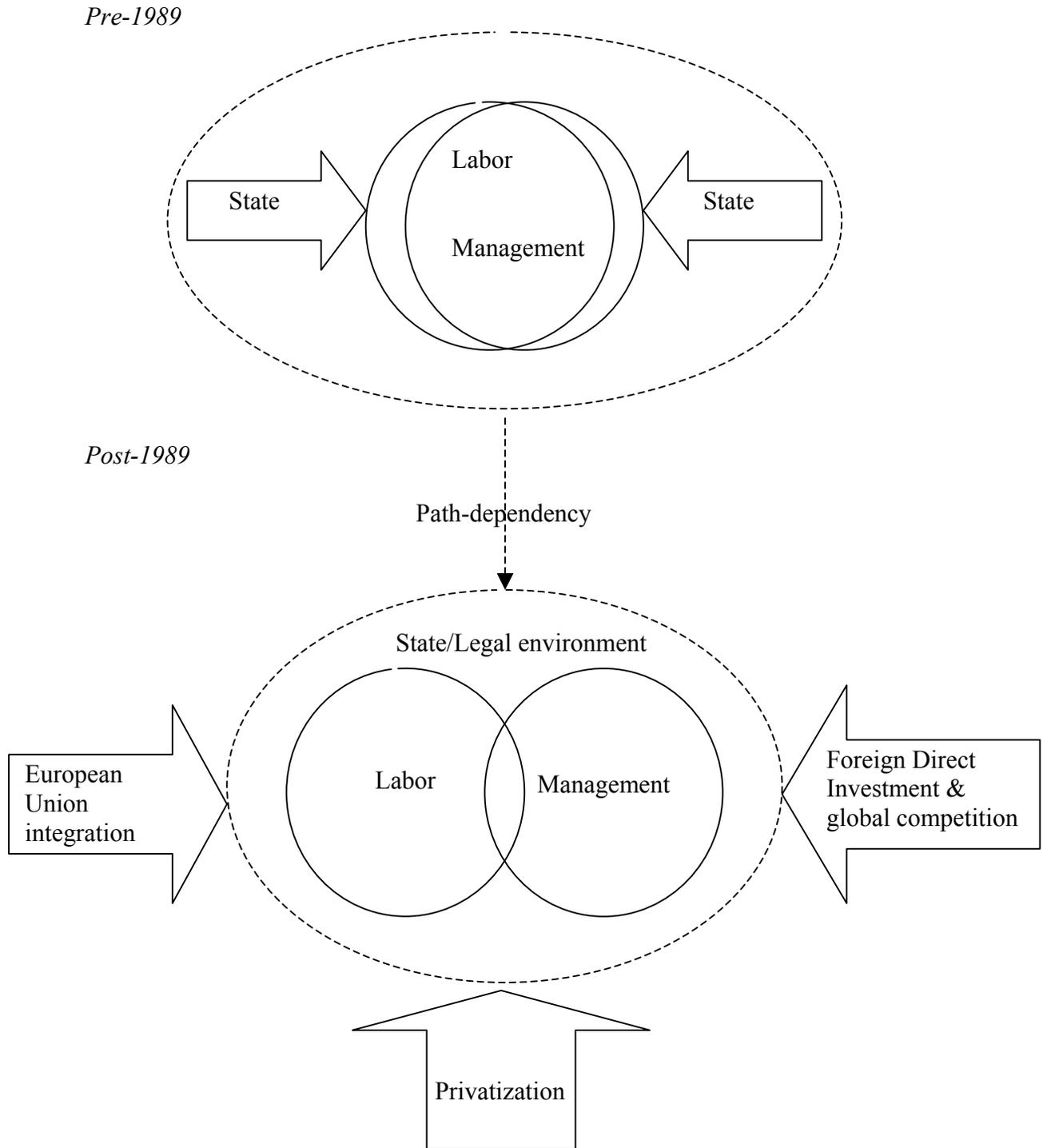
In the next sections, we analyze the working of the three main factors triggering ER change in CEE in the period from planned to market economies and the role played by path-dependent labor institutions in the framing of new ER systems in CEE.

II. Privatization and the Transformation of ER Systems

Privatization of SOEs across CEE countries is a key factor of enterprise transformation, and so is the restructuring and commercialization of the SOEs prior to privatization. The empirical literature is ambiguous with respect to the causal relationship between privatization and ER change. Although the privatization of the SOEs and the parallel establishment of grass roots private enterprises changed the social, economic and legal context in which ER operated during the planned economy period, they are weak predictors of the direction and breadth of transformation in the systems of ER.

Privatization mainly impacted the system of ER at *the enterprise level*, mostly regarding the introduction of HR practices. It also triggered some transformations at the *national, macro-level* by repositioning the main actors of the ER systems above the level of the enterprise *per se*. The nature of the changes at these two distinct levels was quite different. The former were managerial in character, and contained in the *private* sphere of the enterprise, the latter related to the *public* domain and implied the legislative redefinition of political actors as the state, the unions, and employers’ organizations. Below we discuss them in detail.

Figure 1. Factors Shaping Employment Relations in Central and Eastern Europe Pre- and Post-1989



Transformations in the Structure of ER at the Enterprise Level as a Result of Privatization: The HR Function

In addition to being a society-wide process of legal redefinition of the property rights in the former SOEs, privatization represents a realignment of the relationships between the previously less differentiated parties making up the personnel of the enterprises. Depending on the privatization method, management and labor became either shareholders or stakeholders in the company and the labor-management relationships were consequently redefined.

Our analysis in this section is based on a thorough examination of the existing literature linking privatization to the process of ER transformation. A few but nevertheless, consistent studies offer a snapshot view to these processes and their mechanisms. There are two main directions to follow when analyzing the transformation of ER at the enterprise level as a result of privatization. First, under the impact of privatization the internal organizational structure of the enterprises was modified and in the process the role of the personnel department as inherited from the period of planned economy was altered. Second, privatization induced changes in the HR practices themselves.

A main assumption in the literature for the early transition years was the direct positive relationship between property rights change and the transformation of ER. This simplified view of the transformation of ER ignored that organizational structures and routines under the planned economy needed to first be discontinued. From this perspective, one key process was the *de-politization* of the personnel departments and their transformation into politically neutral divisions, with HR functions typical of companies operating under market rules (Soulsby and Clark, 1998). Surprisingly, the *de-politization* of the personnel departments was not accompanied by major changes in the managerial practices. It was generally a repositioning of the personnel department at lower levels of the enterprises' organizational structures – a rebuke for its past collaboration with the communist parties structures (Koubek and Brewster, 1995). Not until the mid 1990s were personnel departments able to resurface as autonomous divisions inside the enterprise, although their role was always seen as mere personnel administration (Soulsby and Clark, 1998). For instance, studies done in the Czech Republic and Poland show that the HR departments were not involved in the firm's strategic decision-making, and line managers overtook many of their functions (Koubek and Brewster, 1995; Tung and Havlovic, 1996). Hence,

Proposition 1. A direct consequence of the planned economy period which privatization could not automatically overcome is the marginal position assigned to HR departments in the privatized SOEs and the failure to integrate the HR function in enterprises' overall business strategy.

In addition to path-dependent mechanisms, the effects of privatization on ER are mediated by the quality of corporate governance arrangements put in place through privatization and the particular characteristics of the economic environments under which firms operate. As

Thirkell, Petkov and Vickerstaff (1998) note, given the diversity of corporate governance structures and managerial strategies in the realm of ER, it is not surprising to simultaneously observe continuity in ER from state to private firms, and discontinuity and diversification of ER at the enterprise level. Over time, a general sense of differentiation emerged in terms of the effects of the privatization methods on the degree of ‘genuine change’ *versus* ‘path-dependency’ in the transformation of ER at enterprise level. Winiecky (2000) maintains that the most radical changes in ER occurred in the grass roots private sector, or what he labels the part of the economy “privatized from below”. This sector is largely non-unionized and has minimum barriers to change. By contrast, privatized SOEs displayed more inertia in the transformation of ER.

We suggest that the privatization methods introduced diversity in ER mainly because of their different capacity to trigger overall enterprise restructuring. The corporate governance literature suggests that some privatization methods are structurally more likely to induce enterprise restructuring, while others are intrinsically more static. Table 1 summarizes the main and secondary methods of privatization pursued in the six CEE countries that we study. Management-buy-outs (MBO), and management-and-employee-buy-outs (MEBO) are insiders-dominated privatization methods found to exacerbate the risk of disinvestment and lack of long-term market strategy (Frydman, Pistor and Rapaczynski, 1996). For instance, employee shareholders are more likely to oppose restructuring plans that involve labor redundancies, may prefer less investment to higher wages, or opt for investments that minimize short-term risks (e.g. excessive product diversification) while exacerbating the possibility for longer term risks (Earle and Telegdy, 1998). On the management side, insiders-dominated privatization methods tend to increase the risk of opportunistic behaviors such as preference for job preservation, excessive wages for managers at the cost of under-investment and opaque information about firm performance (Wright, Filatotchev and Buck, 1997). While the employees might not have the required skills to exercise an effective supervisory role, old managers might have the “wrong” skills, such as ability to bargain with politicians but inability to deal with competitive market conditions (Ramamurti, 2000).

Privatization methods that favor outsiders’ control and monitoring are generally more prone to restructuring. Nonetheless, given the structure of dispersed ownership that resulted from privatization, effective control depends on the development of related market institutions, in particular private-banking systems and the emergence of transparent financial markets. Countries differed markedly in their ability to set up these institutions. In addition, despite the fact that the available packages of privatization methods were similar, their composition and accessibility differed considerably from country to country. For instance, the role of FDI in enterprise restructuring was central in the case of Hungary, while much less important in the case of Romania or Bulgaria that attracted lower levels of FDI (see Table 1).

In sum, the corporate governance literature emphasizes that the main post-privatization pattern is the settlement of the ER governance institutions at the enterprise level with management in the driving-seat (King, 2001) and the weakening of the intermediary and national levels of ER systems. For instance, Cuervo and Villalonga’s (2000) model of privatization and organizational transformation placed management at the core of the endogenous changes of the post-socialist firms and defined privatization as a process filtered through and enacted by

Table 1. Privatization in Six Central and Eastern European Countries by 2002

	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Privatization stage (1)	In process; private sector size: 71.7 % of gross value added 73.4% of employment	Advanced; private sector size: 75% of GDP	Almost complete; private sector size: 80% of GDP	Advanced; private sector size: over 70% of GDP 70% of employment	In process; private sector size: 67.1% of GDP 67% of employment	Advanced; Private sector size: 85% of GDP
<i>Main/ Secondary privatization method (2)</i>	Voucher /direct sales	Voucher/ direct sales	FDI/ MBO	MEBO/ Direct sales	MEBO/ voucher	Direct sales/ voucher
Role of FDI in enterprise restructuring (1)	Restricted	Important	Main tool of enterprise restructuring	Important after 1995	Restricted	Relatively important
Size of Small and Medium Enterprises Sector (1)	45% of GDP* 65% of labor force	42% of GDP 60% of labor force	45% of GDP 70% of labor force	50% of GDP 67% of labor force	47% of labor force	58% of GDP* 60% of labor force

Source: (1) Based on the 2002 Regular Reports on the candidate countries progress towards accession; (2) Hunya (2000) * Data come from the 2000 Regular Reports on the candidate countries progress towards accession

management. Still, the central role assigned to management in the process of privatization was chiefly a reinforcement of the power it gained during the pre-1989 enterprise reforms (Shleifer and Vasiliev, 1996).

The ER literature in CEE, points in the same direction and stresses the subordination of ER transformations to management-triggered restructuring of the enterprise (Martin, 1998; Martin and Cristesco-Martin, 1999; Neumann, 1997). This occurred via the commercialization of the enterprises during the early transition period (Egorov, 1996), insider-dominated ownership forms (Vickerstaff and Thirkell, 2000), voucher privatization (Martin, 1997; Standing, 1997), FDI, and the emergence of a large sector of small and medium enterprises across the CEE economies encompassing mainly a non-unionized labor-force (Casale, 1999; Pollert, 2000). Even in Hungary, the country that has most vigorously adopted the works councils, management remained the main actor shaping ER at the enterprise level (Neumann, 1997; Toth, 1997). Yet, the shift of the control in decision-making toward management as a result of dispersed privatization or what some scholars call “the managerialization” of the CEE economies (King, 2001) was not automatically accompanied by a radical change towards Western HR practices.

A large number of authors highlight the continuity of “communists” HR practices from state to private enterprises, and the slow pace at which new, Western HR practices are introduced (Kovach, 1995; Martin, 1999). Many of the privatized firms continued to be relatively

centralized and rigid, to have high levels of social closeness, extensive informality, ambiguous authority relationships, and little differentiation between skill levels. In comparison to their Western counterparts, they had underdeveloped recruitment, promotion, performance appraisal, and termination practices (Clark and Soulsby, 1999; Koubek and Brewster, 1995; Tung and Havlovic, 1996)¹.

The fact that former ER structures are so resilient to change even under privatization arrangements that favor overall enterprise restructuring is partly explained by path-dependent mechanisms. Managerial- and work-related behaviors are based on routines and practices that coagulate into taken-for-granted ideational frameworks difficult to change (Campbell and Pedersen, 1996). In addition, the link between HR management and firm financial performance was not well understood. Consequently, HR departments and their practices were low priority at least in the first part of the transition period.

Only under certain circumstances did ER change. Empirical studies show that even the most “sticky” routines may change under strong competitive environmental pressures. For example, in their study on ER in the Hungarian industry, Whitley and Czaban (1998) conclude that the transfer of property from state to private hands as such was not a good predictor of the degree of change in ER at the enterprise level, but that exogenous, macro-environmental changes such as increased market competition pressured for the change of the ER inside the firm. A surprising finding was that supervisor-employee relations, usually regarded as strongly inertial, changed more radically in crisis SOEs and foreign-owned firms than in stable SOEs, or in private firms (i.e. owned by Hungarian citizens). SOEs on the verge of losing their domestic market share, and foreign-owned firms exposed to competitive market pressures were more likely to introduce participative work practices, decentralize decision-making and give supervisors autonomy in decision-making. In the same vein, Slomp, van Hoof and Moerel singled out privatization as “the only factor having an impact on industrial relations” (1996:343). But they point out that this is due not only to changes in ownership status as such but also to the macro-environmental changes resulting from privatization. Given that ERs at firm level are more likely to be inertial and dependent on logics of actions inherited from the planned economy period, we expect that pressures exercised by the enterprises’ market environment to play an important role in their restructuring. Hence,

Proposition 2. Across privatization methods, privatization shifts the authority in the governance of ER towards management but does not lead to major transformations in firms’ HR practices, unless strong exogenous, macro-environmental pressures are present.

Transformations at the Industry- and National Levels of ER as a Result of Privatization: Tripartism in CEE

There exists a vast amount of literature describing the establishment of tripartite systems in CEE and their *raison d’être* in the turbulent context of the transition to market-based economies (Martin, 1997; Standing, 1997; Pollert, 2000; Cox and Mason, 2000). Hethy defines tripartism as a variety of ‘neo-corporatism’, a mechanism of “high-level negotiations between the state and the representatives of employers and labor” (1994: 312). In the CEE context, tripartism provided a national level framework to negotiate the privatization process and its large

redistribution of assets. Yet, several authors attribute the establishment of tripartite structures to the pressure of international organizations, such as the International Monetary Fund, the World Bank, and the International Labor Organization, active in these countries during the transition period (Hethy, 1994; Flanagan, 1998; Thirkell et al., 1998). Still other authors suggest that tripartism was adopted to conform to the European Union labor standards, as a precondition for accession and point out that post-1989 governments in CEE were often reluctant to their implementation (Standing, 1997; Myant, Slolock and Smith, 2000). In part, this was due to the decreasing popularity of such institutions in Western countries (Flanagan, 1998).

It is important to note that beyond the conceptual resemblance, there are intrinsic characteristics of tripartism in CEE differentiating it sharply from its Western counterpart (Toth, 1997). First, tripartite structures were implemented from the top and parallel to firm restructuring. Second, the “high-level” character of the negotiations between the three social actors was flawed by the estrangement of the national level tripartite negotiations from the labor strategies pursued by the companies. Third, effective tripartism required a clear redefinition of the role of the state, unions and employers’ organization within the ER systems, and a break from the practices of the communist period. However, as several authors noted this break either did not occur or adopted unexpected forms (Flanagan, 1998; Martin, 1997). In sum, each party in the tripartite model introduced specific types of strains.

A common feature and a benchmark of tripartism across CEE during the 1990s was the fact that the state-, labor unions-, and employers’ organizations were not “actors” in the real sense of the term, but in fact, bundles of dynamic processes. Their functioning structure was still far from being stabilized, or from presenting operational routines even toward the end of the ‘transition’ decade. Table 2 presents the level of union and employers organizations fragmentation across the six CEE countries by 1998 showing this diversity. Below we discuss the specific tensions introduced within the tripartite structures by each of its actors.

The State as a Tripartite Actor. The tensions originating in the position of the state within the tripartite structures are probably the most powerful. When tripartite structures were first introduced in CEE, the expectation was that the state will play only a limited role and that most of the negotiations will take place between the representatives of labor and management (Slomp et al. 1996, Cox and Mason 2000). However, given its critical role in the process of privatization and in the coordination of the macro-stabilization reforms, the state remained central to the tripartite structures. In fact, as the Czech and Slovak experiences clearly exemplify, the extent to which tripartism gained a higher profile at various points in time, depended strongly on the government’ general attitude towards corporatist economic coordination (Myant et al., 2000). This seems to be a trend typical not only in the CEE transition economies but, more broadly, a characteristic of developing economies that rely on state-lead policies of economic growth (Zapata, 1996). Other authors point to the fact that the centrality of the state within tripartite negotiations was enhanced by attitudinal patterns inherited from the past. Partly because the role of the state used to be central in solving their problems, and partly because unions (Neumann, 2002) and employers’ organizations were perceived as weak and ineffective structures (Slomp et al., 1996) employees continued to direct their demands to the state.

Table 2. Structure of Trade Unions Organizations and Employers' Organizations in Six CEE countries

	Bulgaria	Czech Republic	Hungary	Poland	Romania	Slovakia
Estimated unionization level by 1996-1997 (% of employed labor force) (1)	37% (1995)	37%	45% (1995)*	40%	50%	50%
Number of unions (U), union federations (UF) & union confederations (UC) (2)	2 UC 4 UF	- One large UC with 30 member trade unions - 11 smaller UC	6 UC	2 UF**	-Over 20 UC of which: 2 largest UC have each 5880 and 2140 U	-One UC with 41 U -3 smaller UCs -8 independent trade union branches
Number of employers' organizations (2) EO- employer organization EC- employer confederation	4 main EOs in one association	-2 large EC of ECs with 7, and respectively 21 member federations	10 EC	1 main EC, & several other confederations & organizations of varying size	5 national EOs	1 EC with 39 EOs

Source: (1) Standing (1997: 140-150); (2) Casale, ed. (1999) Note: * Data for Hungary come from Thirkell et al. (1998: 86); ** Data for Poland come from Cox and Mason (2000: 334-335)

Old "Transmission Belt" Unions and New Unions as Members of the Tripartite Structures. Another major source of conflict within the CEE tripartite structures comes from the unions' position in the tripartite negotiations. Studies done in the region describe the general tendency toward fragmentation in the union movements (Standing, 1997; Cox and Mason, 2000), the conflict between old and new unions (Martin, 1997; Pollert, 1999), and the direct involvement of unions in the political life (Cox and Mason, 2000; Pollert, 2000). The result is a trend toward decreasing popularity of unions in CEE (Martin, 1999). Blanchflower and Freeman's (1997) analysis of attitudes toward unions revealed much lower levels of satisfaction with unions among Eastern employees than their Western counterparts, and point out the paradox that although much more dissatisfied with unions, employees in the East shared the overwhelming opinion that unions have too little power. They attribute these contradictory findings to the communist legacy of labor relations and to the peculiar role played by unions in the planned economy system - "transmission belts" mechanisms for the high-level decisions taken by the communist parties that needed to be implemented at the enterprise level. That is, the passivity of former trade unions and their lack of legitimacy as representatives of employees' interests continued after 1989. Another explanation of unions' ineffectiveness inside tripartite structures is advanced by the studies of Slomp et al. (1996) and Pollert (2000) who discuss the issue of divergence of eastern tripartism from its Western models. Their answer to the question

of why states remain strong in the tripartite structures of the East is that the intermediary level of tripartite systems (industry level negotiations) is the missing element of tripartism in the ex-communist countries of Europe.

Employers' organizations as members of tripartite structures. The most uniform phenomenon accompanying the emergence of tripartism in CEE was the slow formation of employers' organizations and their lack of substantive involvement in the tripartite structures (MacShane, 1994; Cox and Mason, 2000). Generally speaking, employers remained focused on company-level agreements and saw little need for industry- or national level negotiations (Egorov, 1996; Martin, 1999). The privatization processes seemed to further accelerate this trend. Managers of privately owned companies, and especially those newly formed were reluctant to accept unions in their companies and to get involved in employers' organizations at the industry level. Country-specific studies (Pollert, 1999; Hill, Martin, and Vidinova, 1997) show that often the role of employers' organization has been appropriated by the Chambers of Commerce (Slomp et al., 1996) and mostly as a government effort to comply with the tripartite structures requested by international organizations, the ILO in particular (Standing, 1997). This further weakened the intermediary level of the tripartite systems and accentuated the polarization of the ER systems between the national and enterprise levels.

As has been observed in the case of developed economies, employer strategies in the realm of ER follow logics of action that respond to global competitive pressures faced at firm level. In CEE, privatization opened the economies abruptly to global competition, *before* the erection of any institutions of corporatist coordination was consolidated. In consequence, employer strategies in CEE are closer to what Thelen (2001) described for advanced industrialized countries like Britain and the United States as *segmentalist* ER strategies. As opposed to "collectivist" strategies, segmentalist strategies characterize market economies that have traditionally weak labor market coordinating institutions above the enterprise level. In such countries the employers are compelled to stabilize the firms' labor market environment through atomized, firm-based negotiations. Short of labor market coordinating institutions above the enterprise level, and faced with strong open-market competition, employer strategies in CEE subscribed to segmentalism from the very beginning of the transition period. In light of this discussion, we propose:

Proposition 3. The pivotal role of the State in the process of privatization and economic restructuring reinforces its historically strong position in the CEE systems of ER and its weight in the outcomes of tripartite collective bargaining.

Proposition 4. Path-dependent barriers to the establishment of unions and employers' organizations undermine the formation of corporatist structures of ER models in CEE and relegate collective bargaining negotiations to the national level while short-circuiting the intermediary level of decision-making.

III. Foreign Direct Investment and the Transformation in ER Systems

In this section, we discuss foreign direct investment (FDI) as an autonomous factor influencing the transformation of ER in CEE. Three main reasons make FDI critical. First, FDI

brings into the picture the role of multinational companies (MNCs) as main agents of change and globalization. This aspect is particularly relevant in the CEE context, where for over four decades foreign-owned companies were almost completely absent from the economic environment of the planned economies. For instance, in 1987 the total FDI in the six CEE countries and former East Germany was estimated in the range of 200 to 500 million US dollars (UN, 1989: 20-21) while the average FDI inflows for the period 1997-2001 range between 708 million ECU in Bulgaria and 6664 million ECU in Poland (European Commission, 2002). Second, as compared with insiders-dominated privatization methods, FDI was regarded as the primary ground for the *transfer* of foreign managerial skills and tacit knowledge difficult to be acquired otherwise (Estrin, Hughes and Todd, 1997; Kogut, 1996). Third, positive spillover effects to the broader economy were expected to follow as a result of the diffusion of managerial and organizational knowledge from foreign-owned companies to the local companies.

By its influence on managerial practices, FDI transformed the ER systems mainly at the enterprise level. Nevertheless, given the usually anti-union stance adopted by the majority of MNCs, it also impacted unionism and levels of unionization across the region. In other words, similar to other privatization methods, FDI strengthened the enterprise-based character of ER in CEE and weakened the influence of corporatist tendencies imprinted by concurrent processes or international institutions. However, despite the importance assigned to MNCs in the CEE economies, there are surprisingly few empirical studies that analyze their influence on ER systems.

The transfer of HR practices in the CEE work context as a result of FDI

It is largely accepted that MNCs revived or introduced new HR practices inexistent during the planned economy. For example, MNCs were fast to launch recruiting, evaluation, training, compensation, and benefits practices that in the past received little attention. Whereas some studies suggest that foreign affiliates are more likely to follow local HR practices than to adopt the HR practices of the parent company (Rosenzweig and Nohria, 1994), in CEE subsidiaries of MNCs tend to be perceived as islands of Westernized HR management practices and therefore differ from local firms.

A few studies analyzed the internal mechanisms of HR practices' transfer, and pointed to characteristics of the parent companies that favored such transfers. Cyr and Schneider (1996) analyzed the process of organizational learning and actual transfer of HR practices in CEE joint venture companies. Drawing their conclusions on the systematic research of HR practices in three joint ventures established in Hungary, Poland and the Czech Republic with Swedish, French, and German capital respectively, they emphasize the importance of shared responsibility, training, and well-designed reward systems for the process of organizational learning and behavioral change at the enterprise level. Important findings were that unlearning of an old organizational culture occurs through sustained training and teamwork. The long-lasting behavioral pattern of risk and responsibility avoidance inherited from the period of planned economy was found to be decreasing with training and improved communication inside the company.

Another internal mechanism with a seemingly important impact on the transfer of HR

managerial practices in CEE is the use of expatriates. Previous research showed that the presence of expatriates facilitates the transfer of HR managerial practices within MNCs and boosts their departure from local practices (Rosenzweig and Nohria, 1994). In CEE, the expatriates played a major role in the socialization of the locals in the organizational culture and practices of the parent companies. Peiperl and Estrin (1998) estimated that, managerial markets across the CEE were tight, and that there was consequently high reliance on expatriates in the case of foreign-owned and joint ventures firms. Nonetheless, the use of expatriates tends to decrease over time and that seems to be already the case in most of the CEE subsidiaries. Peterson (2003) found that the use of expatriates in CEE is declining, given that functional expertise and organizational culture have been already transferred to local managers, but that the transfer of HR practices remains mainly circumvented to the subsidiaries. The broader spillover effects to local companies are limited, because the managerial markets are highly segmented with little circulation of managers from the MNC's subsidiaries to the local companies.

One of the few studies that paid attention to the characteristics of the MNCs in connection to the transfer of HR managerial practices is Bluhm's (2001) analysis of the conjugate home country/host country effects in the case of 27 German manufacturing firms established in Poland and the Czech Republic. Bluhm finds that the intensity of managerial transfer was best predicted by firm size. Large MNCs were more likely to transfer, or creatively adapt HR practices pursued at home, whereas small firms followed more the existent national practices. Despite the limited representativity of Bluhm's sample, the study suggests that the characteristics of the MNCs present in the region introduce diversity in the HR practices followed by the subsidiaries.

We would argue that the adoption of the parent company's HR practices depends, however, on a much wider range of factors, the influence of which has not yet been assessed in the case of MNCs operating in the CEE countries. Such factors refer to the entry mode, the type of market in which the parent company operates (global versus isolated domestic markets), the extent to which HR management is regarded as a strategic component in the parent company, the cultural distance between the home and host country, the level of enterprise de-politization and the overall legal and political environment of the host country.

The Effect of FDI on Unionism in CEE

Several empirical studies confirm that FDI weakened trade unionism and contributed to the enforcement of management authority at the firm level. In Hungary, Toth (1997) and Neumann (1997) show that more often than not management in foreign-owned companies adopted a hostile attitude toward unions, and that in multinational companies the labor force is largely non-unionized. Referring to Bulgaria where management discretion at the firm level was somewhat more contrived by law than in other CEE countries, Hill et al. (1997) states that unions' position is more at question in firms with foreign participation and that embryonic 'managerialism' is more likely to appear in multinational companies. Martin (1997) finds that in the Czech Republic, elements of new HR practices (such as individual-pay determination) are more likely to exist in multinational companies and that foreign participation above 30 percent takes firms out of the incidence of the Wage Act (i.e. wage levels are no longer established through collective bargaining). Finally, Pollert (1997) also documents the weak bargaining

position of unions in MNCs in the Czech Republic, although she signals differences depending on the MNC's country of origin.

Although all these studies point in the same direction, it is not clear whether the fact that MNCs in CEE are largely non-unionized is the result of an organized effort to block the establishment of unions within their subsidiaries. A major set-back for the establishment of unions was that wages in the subsidiaries were by far superior to those negotiated through collective bargaining at the industry level, or to the national minimum wages established by tripartite negotiations. Shop-floor negotiations in MNCs were targeted towards flexibility, and in particular, towards attracting a superior work force. In light of this literature, we propose:

Proposition 5. CEE countries that attracted higher levels of FDI will have more heterogeneous and decentralized ER systems that are less influenced by tripartite arrangements and will display more diversified HR practices at the firm level.

Proposition 6. The presence of MNCs reinforces the managerial character of ER at the level of the enterprise and pressures for de-unionization and the weakening of incipient corporatist arrangements at the industry- and national levels.

IV. The “Europeanization” of the ER Systems in CEE: European Union Enlargement and the Social Acquis

An increasingly critical factor for the structuring of new systems of ER in CEE is the process of European Union (EU) enlargement and the adoption by the CEE countries of the *acquis communautaire* - the body of EU legislation - as a pre-condition for accession². At the policy level, Atkinson (2002) points out that the reactivation of EU's social agenda at the Lisbon European Council in March 2000 was at least partially due to the perspective of enlargement and that the move was more preemptive than accommodating. The enlargement process requires the establishment of isomorphic institutions at the national level of the ER systems and pressures toward more corporatist arrangements at the sub-national levels. Consequently, it is the most challenging factor to the path-dependence hypothesis of ER transformation in CEE.

Notably, unlike other transition or developing economies, the CEE countries face the unique task to adapt to the institutionalized structure of ER of developed EU economies. We argue that the extent to which ER in CEE will continue to operate under a specific type of tripartite relationships, and to devolve the governance of the employment relations at the enterprise level will depend to a large extent on two factors: (a) the evolution of ER and integration paths of current EU members, this is, the enlargement context, and (b) the conditions for enlargement required in the realm of the so-called third, i.e. social pillar.

The rest of this section discusses the implications of enlargement for the institutions of labor governance in CEE. The analysis will first outline the enlargement context in the realm of ER, and second it will chart the main policy tools employed, and the potential consequences of the enlargement process for the ER systems in CEE.

The Enlargement Context

The idea of a pan-European “system” of industrial relations has only recently gained more contours in the debates about the future of labor governance in an economically and politically integrated Europe. The 1990s represented a period in which the EU’s social dimension, only vaguely affirmed in the Treaty of Rome, received legal grounding and strong institutional support. A number of developments such as the 1989 Social Charter, the atypical work and parental leave directives of the early 1990s (Jensen, Madsen and Due, 1999), the 1995 European Works Council directive (Teague, 1999; Addison and Siebert, 1999), and the implementation of National Actions Plans for Employment (NAPs) starting in 1997-1998 (Leonard, 2001; Biagi, 1999) are repeatedly pointed out as key steps toward the creation of a European system of industrial relations and harmonization in the social dimension. A pick moment was the inclusion of a proper “employment chapter” in the 1997 Treaty of Amsterdam. As a consequence the narrow legal basis for action in social matters afforded by the Treaty of Rome was extended to expressly include the social dimension.

Although recent developments indicate increasing coordination on labor-related issues at the European level (Jensen et al., 1999; Teague, 2001) there are no clear convergence trends toward a common institutional design of labor governance among the present EU members (Marginson and Sisson, 2002). Some authors argue that none should be expected any time soon (Streeck, 1998; Roche, 2000). This makes the task of identifying the concrete ways in which the EU enlargement will affect the functioning of the CEE systems of ER the more difficult. Whereas the economic convergence criteria are clearly defined, and their economic rationality accepted, the impact of EU models of labor governance and of the social *acquis* is difficult to assess in abstractness. Moreover, even if such evaluations could be arguably made, the top down implementation of the *acquis* and of ER models anchored in corporatist arrangements leaves the enforceability matter still widely open. Nevertheless, one issue is clear: unlike in the case of the current EU members, the accession countries cannot opt-out from the *acquis*. Therefore, the pressure to conform to the present *acquis* is, in a sense, stronger than for the current member-states (Grabbe, forthcoming).

The Influence of Enlargement on the CEE Systems of ER

The adoption of the social *acquis* was seen as a linear process to be gradually implemented by all the candidate countries before accession. Its legalistic approach ruled out the possibility of more differentiated routes to enlargement based on public versus market failure analyses to social policy adoption (Addison and Siebert, 1999). Below we discuss the main policy tools for the adoption of the EU social *acquis*.

The main tools for the coordination of the candidate countries’ employment policies are the “Joint Assessment Papers” (JAPs) signed by the candidate countries with the European Commission in the period 2000-2002. The JAPs are country-specific documents aimed at identifying and evaluating the measures to be undertaken by each candidate country in order to fully implement the Employment Title of the Amsterdam Treaty. The JAPs were structured along two distinct dimensions: an evaluation of the local market characteristics and, a set of policy recommendations to be adopted in order to align the employment policies of the candidate

countries with the European Employment Strategy. Policy recommendations cover broad areas such as wage settlement, the reform of the tax and benefits systems, human resources development and training, the gender gap and minority issues.

The similitude of policy recommendations across countries is striking. It reveals the Commission's uniform view regarding the necessary labor market institutions to be put in place in each of the candidate countries. A large number of recommendations address the development of national level labor institutions such as the PES (Public Employment Services), the representative national institutions to deal with the ESF (European Structural Funds), the main agencies to design and monitor the implementation of ALMPs (Active Labor Market Policies) and, the monitoring institution for the implementation of the *acquis* in the area of health and safety at work (usually Labor Inspectorates). At this early stage, it is difficult to assess the effectiveness of these institutions. The question still remains whether what is now part of the law will effectively shape the structuring of ER at enterprise- or sector level. In a sense the JAPs mirror a similar exercise initiated by the Commission for the current member states in 1997-1998 in the form of National Action Plans for Employment (NAPs). Hence, taking a closer look at the literature analyzing the NAPs may partially reveal some of the assumptions and potential consequences of the JAPs in the Eastern context.

The NAPs represent a concrete instrument by which the European Commission influences the national level employment policies. The guidelines of the NAPs are established by the Commission and the member-states have to report back annually the progress made toward meeting a number of targets. Several assumptions implicit in the way in which the European Commission has set up the process of NAPs elaboration have been already questioned and analyzed in the literature. The concerns raised in the context of the present member states are potentially relevant for the CEE countries as well. For instance, Leonard (1999:32) points to the fact that NAPS are essentially a government project as opposed to union or employer motivated, and that they operate under an implicit assumption of the existence of corporatist national systems of industrial relations.

The assumption of a corporatist labor environment in CEE would come in sharp contradiction with reality. Thus, it seems reasonable to ask what present features of ER in CEE would be enforced or weakened by evolutions similar to those presently taking place in the EU. In particular, would the existing cleavages between the East and the West in the realm of ER be pushed even further? Paradoxically, the efforts toward integration on the social dimension among the present member states could reinforce the divergent trajectory of ER systems in the accession countries. One major implication of the parallel evolutions in the EU is that a prolongation of the strong role of the state in national tripartite bargaining may be expected as a result of JAPs' introduction. As the CEE governments struggle to align their institutions and legislative structures to the EU standards and the *acquis*, the role of the state in regulating the labor markets and institutions will increase rather than diminish.

The 2002 Regular Reports towards Accession as well as a number of other documents issued by the Commission are almost unanimous in noting that the corporatist institutions of social partnership are weak in the CEE countries. However because the "catching up" approach³ is seen as adequate not only in economic matters but also in the realm of ER institutions, the

current recommendation is to strengthen the tripartite- and especially bipartite dialogue at the sector and enterprise levels, as well as to extend the reach of collective agreements in the private sector, including small and medium sized enterprises⁴. It is not clear how this institutional convergence will be achieved in practice but it is transparent that the expectation is that trends will be largely reversed and that unionization levels and participation in employers' organizations will increase. As Meardi (2002) in one of the rare articles analyzing the consequences of the EU eastward enlargement puts it:

“ [...] since 1999 an effort has been made to include social dialogue, as a constitutive part of the *acquis communautaire*, in the enlargement process [...]. Yet this effort remains rather abstract, at most a sort of 'apolitical' institutional engineering with little link to actual industrial relations conflicts. [...] Here, it is possible to identify the same problem which has undermined 'tripartism' in the CEE: the creation of *façade* institutions before effective social partners exist” (81-82).

The uniform approach taken by the Commission for the adoption of the social *acquis* by the candidate countries may explain its almost complete translation in the candidate countries' legislation, most often without any requirements for transitional arrangements. Hence,

Proposition 7. ER systems in the CEE accession countries will continue to be strongly affected by the evolution of the EU acquis in the social and employment domain, especially at the national level.

Proposition 8. The process of European integration may further reinforce the role of the State in the structuring of ER in CEE without contributing to the strengthening of the other social actors of the ER systems.

Proposition 9. The extent to which the social acquis will influence the sector, and company bargaining levels depends on the development of corporatist institutions and instruments of collective negotiations that are not a natural outgrowth of the ER traditions in CEE.

V. CONCLUSIONS

In this article we proposed a three-level framework for the analysis of the transformation of ER systems in CEE, and argued that this conceptualization leads to a better understanding of the level-specific processes and mechanisms of change. We discussed the effects of three main triggers of ER transformation: privatization, FDI, and EU enlargement. By an in depth analysis of the existing literature, we show that privatization and FDI have a stronger impact on the transformation of ER at the enterprise level, while the prospect of the EU enlargement fosters the structuring of new industry, and national institutions of ER.

Path-dependent transformation is a key characteristic of ER systems in CEE with the consequence that the present systems of ER diverge from Western long-established corporatist patterns. Unlike in Western Europe where a similar process of ER deregulation and wage-bargaining decentralization began in the mid 1980s (Thelen, 2001), post-1989 privatization and globalization processes in CEE only strengthened a two-decade old trend for enterprise-centered systems of ER. In fact, we conclude that ER systems in CEE represent unsettled cases of

interference between ER strategies characteristic to systems of liberal and coordinated market economies. The result is so far a hybrid form of these ER systems. Whereas employers subscribed to segmentalist ER based at the firm level, the national level, under the pressure to integrate in the EU, upheld corporatist ER strategies. But, the characteristics of liberal or corporatist Western models of ER were not closely reproduced at any of the levels of the CEE systems of ER. On one side, employer segmentalist strategies were not supported by a strong tradition of HR practices for the governance of the employment relationship at the firm level. On the other side, the corporatist regulation of the ER systems did not rely on a strong intermediate level of ER coordination. Nevertheless, as we tried to document the ER systems in CEE are rapidly evolving under the influence of a host of internal and international pressures. From this perspective, the way in which domestic actors will balance the “Europeanization” and “globalization” pressures remains an open question.

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Notes

¹ This evidence goes against the thesis sometimes advanced in the literature that CEE is experiencing the ‘Americanization’ of ER (Meardi, 2002; Marginson and Sisson, 2002). Such opinions point to the extreme decentralization of collective bargaining and to the enterprise basis of unions as the sole indicator of ‘Americanization’. However, these characteristics are not accompanied by sophisticated HR practices largely characterizing the U.S. ER environment. Nor have unions in CEE been able to replicate the classic ‘economic’ or ‘business unionism’ in Gompers’ tradition. See Ost (2002) for a discussion on the relevance of business unionism in post-communist CEE.

² With the exception of Bulgaria and Romania, full EU membership is envisaged for the CEE countries in 2004. Romania and Bulgaria have the objective to join in 2007.

³ The Report of the High Level Group on Industrial Relations and Change in the European Union states: “Economic convergence in itself is not enough. It should be accompanied by progressive convergence in the social field. [...] This highly ambitious project cannot be realized without the full involvement and commitment of the social partners” (2002:11). See also section “Catching-up process for candidate countries” p. 21-22 in the same report.

⁴ See *Chapter 13: Social policy and employment* in each of the Commission’s Regular Reports on the Progress toward Accession of the candidate countries.