Katalin Bácsi

Social Dialogue during the Crisis: Innovation or Path Dependence?

An Examination of the Hungarian Automobile Industry
Corvinus University of Budapest
Institute of Management
Department of Organizational Behaviour

Supervisor: Dr. Csaba Makó, DSc

© Katalin Bácsi
Social Dialogue during the Crisis: Innovation or Path Dependence?

An Examination of the Hungarian Automobile Industry

PhD Dissertation

Katalin Bácsí

Budapest, 2017
Table of Contents

I. Introduction .......................................................................................................................... 8

II. Trends Defining the World of Labor – Technological and Economic Paradigms .... 11

III. Social Dialogue ............................................................................................................. 16
   III.1 Concepts, Roles and Institutional Systems ................................................................. 16
   III.2. Varieties of Social Dialogue ....................................................................................... 22
   III.3. Social Dialogue in Hungary ....................................................................................... 30
       III.3.1. The Legitimacy of Trade Unions ....................................................................... 32
           III.3.1.1. Membership, density .................................................................................. 32
           III.3.1.2. Mobilizing Power ...................................................................................... 35
           III.3.1.3. Partnership Role ....................................................................................... 37
       III.3.2. Conclusion ........................................................................................................... 43
   III.4. The Effects of the Crisis on Social Dialogue ............................................................. 44
       III.4.1. The National Level ............................................................................................ 45
       III.4.2. Corporate-Level Dialogue ................................................................................. 48
       III.4.3. Conclusion, General Trends .............................................................................. 54

IV. Human Resource Management and the Employee ....................................................... 56
   IV.1. Development of the Field of Human Resource Management ................................. 56
   IV.2. The Special Situation of Human Resource Management in Hungary; Varieties of Human Resource Management ................................................................. 60
   IV.3. Hard and Soft Approaches in Human Resource Management ............................... 63

V. Participation, Involvement and Voice .......................................................................... 68
   V.1. The Concept and History of Participation .................................................................. 68
   V.2. Institutions (Types), Depths and Levels of Participation ........................................... 70
   V.3. Voice or Loyalty? – The Side of the Employee ......................................................... 72
   V.4. Employer Goals and Trends During Participation ...................................................... 75
   V.5. High Involvement Work Practices (HIWP/HIWS) .................................................... 81
   V.5. Conclusion .................................................................................................................... 84

VI. The Context of the Empirical Study: The Automobile Industry .................................. 85
   VI.1. Fordism and Toyotism ............................................................................................... 85
   VI.2. Global Value Chains and their Role in the Automobile Industry ........................... 87
VI.3. Trends in the Automobile Industry, with a Special Focus on the Crisis........89
VI.4. The Role of Labor Relations in Managing the Crisis .............................92

VII. Research Plan .............................................................................................98
VII.1. Research Goals and Research Questions ..............................................98
VII.2. Research Methodology .............................................................................101

VIII. Case Studies ...........................................................................................108
VIII.1. The Case of Audi Hungária Motor Kft. (AHM) .................................108
VIII. 2. Analysis of the Case of Audi Hungária Motor Kft. .........................115
VIII.3. The Case of CabTec Kft., Kecskemét ..................................................118
VIII.4. Analysis of the Case of CabTec Kft. .....................................................127
VIII.5. A Comparison of the Two Case Studies .............................................133

IX. Results and Conclusions of the Research .................................................136

References ........................................................................................................140
List of Figures and Tables

Fig. 1: The flow of the summary of the literature ................................................................. 9
Fig. 2: The three functions of social dialogue ................................................................. 21
Fig. 3: Strategic choice – a simplified model ................................................................. 75
Fig. 4: Research links based on the research plan ......................................................... 99
Table 1: The five defining technological revolutions ................................................... 13
Table 2: The five major waves of development, and the technological and economic
paradigms ......................................................................................................................... 14
Table 3: The typology of the four European models ..................................................... 24
Table 4: The comparative institutional advantages of dependent market economies ....... 25
Table 5: Similarities between the Central-Eastern European model and the models of the
old member states ......................................................................................................... 26
Table 6: Trade union presence and density according to ownership structure ............. 33
Table 7: The numbers and nature of activity, 1989-2010 ........................................... 36
Table 8: Company and sectorial collective agreements according to the number of
employees ......................................................................................................................... 42
Table 9: The number and coverage of collective agreements at the various levels ...... 43
Table 10: Categorizing social pacts .................................................................................. 46
Table 11: Possible areas in corporate-level pacts for employment and competitiveness ..... 49
Table 12: The main motivators for concluding corporate-level agreements .................. 51
Table 13: Motivators for avoiding corporate-level agreements ...................................... 52
Table 14: The theoretical framework of flexibility ......................................................... 53
Table 15: Types of workplace practices ........................................................................... 67
Table 16: Goals of human resource management ............................................................ 76
Table 17: The efficiency of the various mechanisms of voice (organizational
perspective), their risks and direct and transactional costs ......................................... 77
Table 18: The four faces and approaches of voluntarily established institutions of
participation ....................................................................................................................... 79
Table 19: Major mass lay-offs in the automotive industry in Hungary ....................... 95
Table 20: The role of social dialogue in managing the crisis in the automobile industry .... 96
Table 21: Literature, processed to date, connected to the empirical research ............... 102
Table 22: Sampling strategies in qualitative research .................................................... 103
Table 23: Pros and cons of data collection methods ....................................................... 105
I. Introduction

The world of labor has seen fundamental change in recent decades. Financial and economic globalization, which has affected the labor market, as well as technological advances, have all made an impact not only on the evolution of labor organization, but also on the relationship between employees and managers, and on social dialogue. The economic and financial crisis of 2007-2009 only put more of a spotlight on these processes, while also providing a new focus. Social partners, at various levels, were involved in decision-making related to the management of the crisis and in the implementation of the solutions.

The topic of my thesis is social dialogue and the crisis; in other words, the role social dialogue plays in tempering the effects of the crisis and moderating negative impacts, as well as the extent to which the crisis has brought about new solutions both in terms of content as well as process. The question is how the crisis has created opportunities to introduce new frames, methods and tools. At the focus is the negotiating function of social dialogue: the bipartite relationship between employers and employees.

The literature, both Hungarian and international, tends to focus on collective negotiations and agreements within the realm of employment relations. Thus, one pillar of my thesis and of my reading of the literature is social dialogue, and its various approaches and models, with a special emphasis on Hungary.

In the Anglo-Saxon literature of labor relations, we often encounter the notion that there is a crisis in theoretical and practical research (Edwards, 2005), which is primarily a result of the erosion of collective and institutionalized institutions (e.g. a drop in trade union membership or the changing role of collective bargaining). Searching for the reasons, certain authors mention several factors, including the transformation of the economic environment, new principles of labor organization, the post-industrial society or the changing attitude of management. Hyman (Hyman, 2007) suggests that despite the erosion of institutions, the collective institutions of labor relations will remain definitive, and claims that the goal must be to re-institutionalize the field. Hyman says the European Union can serve as one base for this trend. Several authors, at the same time, make a case for merging labor relations and the areas examined by human resource management, with a focus on employee relations (Colling & Terry, 2010; Ackers & Wilkinson, 2003).
With the goal of reaching a deeper understanding of the content and process of social dialogue, my hope is not only to explore collective agreements, but also to examine other forms and roles of participation, from the perspective of both employees as well as employers. To that end, another main pillar of the paper is related to human resource management itself and the role of human resource management, thereby linking the two areas.

The structure of my paper will also follow the train of thought above. Following an introduction of the technological and economic paradigms defining the world of labor, I will proceed to describe the function and varieties of social dialogue, before moving on to general trends experienced during the crisis. Then I will link the approaches of human resource management with evolving trends, devoting an entire chapter to participation, involvement and voice. Before describing the research plan, I will examine the context for my empirical research – the automobile industry – with a special focus on the effects of the crisis and on the role of social dialogue in the crisis.

The figure below describes the train of thought of my summary of the literature.

Fig. 1: The flow of the summary of the literature

<table>
<thead>
<tr>
<th>III. Social dialogue</th>
<th>IV. Human Resource Management (HRM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The role and functions of social dialogue</td>
<td>Development and roles of the field</td>
</tr>
<tr>
<td>Varieties of capitalism and social dialogue - the model of Central-Eastern Europe</td>
<td>Varieties of HRM and the Central-Eastern European model</td>
</tr>
<tr>
<td>Social dialogue in Hungary</td>
<td>Hard and soft approaches in HRM</td>
</tr>
<tr>
<td>Literature review concerning the crisis: trends and analysis framework on macro and micro level</td>
<td>Trends in social dialogue and their impact on workplace practices</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>V. Participation, involvement, voice</th>
<th>VI. The context of the empirical study: the automobile industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>The concept, history and types of participation</td>
<td>Fordism and Toyotism</td>
</tr>
<tr>
<td>Voice or loyalty: the side of employee</td>
<td>Role of global value chains</td>
</tr>
<tr>
<td>The role of participation from the employer point of view</td>
<td>Global trends</td>
</tr>
<tr>
<td></td>
<td>The role of social dialogue in managing the crisis</td>
</tr>
</tbody>
</table>
Following the examination of the framework of the empirical research, which relies on the literature analyzed, I describe the purpose of my research and the added value it brings to the literature. I also formulate my research questions. Then, I review the research methodology selected (with the methodology building on case studies and based on qualitative interviews). I also discuss the limitations of the sample chosen and of the methodology. Following the description of the case studies, I analyze the contents described therein according to my research questions. In a closing chapter, I summarize the results and the conclusions to be drawn from the comparison of the case studies, from the comparison of the case studies with the literature and from the literature itself. I also go on to describe the novelty of my work in terms of theory and practice, linking all of these with possible directions of further research.
II. Trends Defining the World of Labor – Technological and Economic Paradigms

The world of labor has seen fundamental change in recent decades. Financial and economic globalization, which have affected the labor market, as well as technological advances have all made an impact not only on the evolution of labor organization, but also on the relationship between employees and managers, and on social dialogue. Accordingly, the structure of industries and professions has also changed, as has the nature of employment.

Since the 1980s, several theories of paradigm shifts have been created: flexible organization, new production concepts, lean management, post-Fordism, and knowledge economy – just to name a few. Certainly, these theories contain several differences, yet we may mention several common areas and trends (Thompson, 2003, p. 359):

- First, the old production paradigm, which was characterized by large organizations, mass production and standardized work, was replaced by flexible, creative and knowledge-based labor, primarily in the field of services.
- Secondly, technological, financial and bureaucratic control was replaced by cultural or normative coordination, built on the commitment and self-discipline of employees.
- Thirdly, hierarchies were replaced by networks and decentralized organizational units, operating without borders in a globalized world defined by private capital.

In addition to paradigm-changing theories, Thompson (2003) differentiates between partial breaks, which may occur within a single paradigm. In the current paradigm, Thompson emphasizes the increase of the quality intensity of work (Thompson, 2010), the increasing dependence of employees and the increased importance of tacit knowledge.

Perez’s (2009) theory on technological revolutions and technological and economic paradigms summarizes well the most important changes, while placing them in a
theoretical frame which is easy to apply in practice and which may be linked with the transformation and changing of the institutions of social dialogue.

The point of departure for the theory is that every new and innovative piece of technology influences the business space, the institutional environment and the culture (both the organizational and the national culture) in which the various organizations operate. The three key principles of the concept are innovation, the technological revolution and the technological and economic paradigm. Innovation refers to – based on Schumpeter – the introduction of a new product or a new combination of something, albeit treated separately from invention (Perez, 2009, p. 3). According to Perez, individual innovation is linked to technological systems, which then leads to technological revolution. Technological revolution refers to a group of interlinked, radical breakthroughs, which define technologies mutually dependent on one another. All such revolutions have greatly increased the abilities of the economy to create value. They provided space for new innovations, and through that for the introduction of new basic technologies, infrastructural transformations and organizational goals, which have all significantly increased the efficiency and the efficacy of the various industries and activities. Perez (2009) differentiates between five such meta-systems since the British industrial revolution, with each bringing with it a large set of remunerative innovation. These events may be considered technological revolutions in that the systems they incorporate are very closely and mutually interlinked in terms of technology and market, and in that they have the ability to effect in-depth change in other segments of the economy and, as a result, society. It is due to the first notion above that we may call them revolutions; the second aspect, the ability to effect change, leads Perez to refer to Kuhn and speak of a technological and economic paradigm, which defines the most effective way of using new technologies. New industries become the drivers of the economy in the long term. Their proliferation and their inclusion in other segments of the economy and society define the major waves and cycles of development.
Table 1: The five defining technological revolutions

<table>
<thead>
<tr>
<th>Technological Revolution</th>
<th>The breakthrough which set off the revolution</th>
<th>New technology and new or transformed industry</th>
<th>New or transformed infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td>first (1771) industrial revolution</td>
<td>Arkwright opens his cotton mill in Cromford</td>
<td>mechanized wool industry; wrought iron, mechanization</td>
<td>channels and waterways, toll roads, hydro-energy</td>
</tr>
<tr>
<td>second (1829) the age of steam and the railways</td>
<td>testing of the steam locomotive ‘Rocket’ on the Liverpool-Manchester railroad line</td>
<td>steam engines and mechanization, iron and coal mining, construction of railways, manufacturing of railway cars, spread of steam energy</td>
<td>railways, mail, telegraph, giant ports, warehouses and international shipping, urban gas</td>
</tr>
<tr>
<td>third (1875) the age of steel, electricity and heavy industry</td>
<td>Carnegie opens the Pittsburgh (Pennsylvania) steel works based on Bessemer’s plans</td>
<td>cheap steel, chemical industry, general engineering, manufacturing of electric products, copper and cables, packaged and bottled food and drinks, paper and packaging</td>
<td>international shipping, transcontinental railways, wide bridges and long tunnels, international telegraph, telephone, electric grids</td>
</tr>
<tr>
<td>fourth (1908) the age of oil, the automobile and mass production</td>
<td>the first Model T rolls off the Ford assembly line in Detroit</td>
<td>automobile mass-production, cheap gasoline, petrochemicals, internal combustion engine, household electric products, frozen foods</td>
<td>road networks, oil pipelines, electricity available to all, wired and wireless telecommunications</td>
</tr>
<tr>
<td>fifth (1971) the age of information and mass communication</td>
<td>the first Intel microprocessor is announced in Santa Clara</td>
<td>information revolution, cheap microelectronics, computers, software, telecommunications, computer-assisted biotechnology and new materials</td>
<td>digital telecommunication s, internet, e-services, flexible use of electric grids, high-speed and multi-platform transportation</td>
</tr>
</tbody>
</table>

Source: Perez (2009, p. 4-7)

In terms of the structure of revolutions, each revolution contains several new and interlinked products or production technologies, generally a new input (which tends to be either a new source of energy or a defining material), as well as one or several new infrastructural solutions, which later change the flow of products, labor, energy and
information (see the last two columns of the table above). As new technologies spread and their role in the economy increases, and they transform social and institutional structures, a new technological and economic paradigm is established. New technological changes are introduced not in a random manner: they tend to follow a type of path dependence and are mutually dependent on other innovations which may be grouped in a system and which define the revolutions (Perez, 2009, p.13).

Each new paradigm produces an impact in three main areas. First as far as dynamic cost structures are concerned, there is an impact on both the input as well as in the area of production, since new elements are being introduced at lower costs, and become the basis for innovations or investments. Costs are thereby reduced, and the considerations for economies of scale also change. Secondly, and in parallel, the space for innovation is increased both in existing industries as well as by creating new ones. Thirdly, as a result of the above, there is an impact on organizational goals and characteristics (Perez, 2009). In the second phase, for instance, mail, the telegram and national railway lines transformed the structure of the banking sector, with local institutions being replaced by national networks. In the fourth phase, the introduction of Taylor’s principles, the differentiation between white collar and blue collar employees, the reduction of the labor force and the doubling of wages in Ford’s manufacturing plants foreshadowed social changes to come. Table 2, below, summarizes some of the most important principles of innovation, which defined the various technological and economic paradigms (Perez, 2009, p.15).

Table 2: The five major waves of development, and the technological and economic paradigms

<table>
<thead>
<tr>
<th>Major wave of development</th>
<th>The technological and economic paradigm – generally accepted and valid innovation principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>factory manufacturing, mechanization, increasing productions through time-management, continuous mobility (water, energy, transportation), local networks</td>
</tr>
<tr>
<td>Second</td>
<td>economies of suburban settlements/industrial cities/national markets, power centers with national networks, size is the driver of development, standardized parts and assembly lines, energy resources accessible anywhere, independent mobility (machines and transportation modes)</td>
</tr>
<tr>
<td>Major wave of development</td>
<td>The technological and economic paradigm – generally accepted and valid innovation principles</td>
</tr>
<tr>
<td>----------------------------</td>
<td>------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Third</td>
<td>large structures (steel), economies of scale in facilities/vertical integration, energy (electricity) for industry, science as the driver of development, global networks and empires, standardization, cost calculation driven by control and efficiency, economies of scale in the global market/small business can only be successful locally</td>
</tr>
<tr>
<td>Fourth</td>
<td>mass production/mass markets, economies of scale/horizontal integration, standardization of products, electric current, synthetic materials, functional specialization/hierarchy pyramids, centralization, power of nation states/global agreements and confrontations</td>
</tr>
<tr>
<td>Fifth</td>
<td>information intensity, decentralized integration/network structure, knowledge as capital/immaterial added value, heterogeneity/diversity/adaptability, market segmentation, economies of choice and specialization combines with size, globalization/interaction between local and global, outward and inward cooperation/clusters, immediate action and immediate global communication</td>
</tr>
</tbody>
</table>

*Source: Perez (2009, p. 15)*

The trends and defining processes described in the table above affect the world of labor and, thus, the evolution of social dialogue. The organizing principles of the various technological and economic paradigms suppose different relationships with the employee, and place the emphasis on different strategies.
III. Social Dialogue

In this chapter, following an introduction of the role and institutional system of social dialogue, I will discuss the multifaceted nature of labor relations. I will analyze the situation of social dialogue in Hungary in view of the legitimacy of trade unions. Finally, I will describe the general effects of the crisis on the institutional system of labor relations, both on the national as well as on the company level.

III.1 Concepts, Roles and Institutional Systems

Although the study of labor relations dates back over one hundred years, it continues to lack a clear theoretical background. Thus, we may encounter different approaches both in terms of fundamental principles as well as its subject. (This is also indicated by the debate over whether labor relations may be considered an independent scientific area, or is rather an interdisciplinary approach to a single field.) As far as the definition is concerned, it is best if we rely on what research areas those studying the field have differentiated between (Hyman, 2007, p. 39). The central element is, in every case, the collective or institutional regulation of labor and employment or, as others call it, the governance thereof (Edwards 2005; Sisson 2007 cited in Hyman, 2007). The interlinking of theory and practice is typical of research in this field. In the beginning, researchers provided government with advice; later, it was management that was in the focus, i.e. the management of labor relations within a specific company. The academic focus is greatly influenced by the special definitions used in this field for various countries and various eras – how employee relations were interpreted and managed (Hyman, 2007, p. 30).

The concept of labor relations, together with a consistent conceptual system, was introduced by Dunlop (Dunlop, 1958, p. 3-6) to model relationships between the actors and to describe the creation and evolution of regulations affecting employment relationships. In Dunlop’s view, the system of labor relations represents a subsystem of society. This subsystem is closely linked to, and interacts with, the broader social, political and economic environment and with its various elements.

Dunlop broke down the system of labor relations into its constituting elements, which together form the subsystem and which together form a system of rules for the parties of
labor relations and to frame their activities. The subsystems, to be elaborated on below, also represent an area of analysis (Tóth, 1995; Ladó et al., 1999, p. 13).

The system of labor relations includes three actors: employees, employers (to include interest groups representing both sides) and government. It must therefore be examined what form the relationships between actors in the world of labor take in the various societies and eras.

Sets of regulations and processes are created in the system of labor relations to regulate the workplace and the workplace community; these may take several forms (agreement, contract, instruction, tradition etc.). Understanding and describing these is the next subject of analysis, together with an analysis of why it is that this particular set of written and unwritten regulations evolved.

The decisions and activities of the actors are affected by their environment. We must therefore also examine how and why the regulations above evolve as a result of external environmental effects.

According to Dunlop, the stability of the system is contingent on the various actors having similar views of each other’s roles and opportunities – in other words that there be established a common ideology and set of principles which are founded on a set of mutually accepted values. Thus, the roles, relationships, institutions and processes which comprise a system of labor relations cover the various branches of economic activity, from the workplace to the national level, and define the actors’ activities both horizontally and vertically (Dunlop, 1958, p. 6).

In Dunlop’s opinion, the function of the subsystem of labor relations is, based on the above, to regulate the order of labor and workplace employment relationships (Dunlop, 1958, p. 13-15). One defining concept in Dunlop’s work is the assumption that the system of labor relations is a self-regulating process, which means that the institutions in the system will eventually align with changes in the environment, thereby providing for an optimal “level” of social and economic performances.

Dunlop’s model was criticized in several places (see also Salamon, 1987; Beaumont, 1992); the foundations of the concept were however never questioned. Most of the criticisms mention, among other things, the stability of the model and the underlying conditions for the parties to reach a consensus on one another’s role, suggesting that the model provides an appropriate framework for analysis under stable conditions, but is
inadequate for describing the transformation and the dynamic nature of labor relations (Beaumont, 1992). The following approaches may, in fact, be considered criticisms of Dunlop’s model, or additions to it. Several other research directions or schools also exist in addition to the system-theory approach described above.

The so-called strategic choice theory of labor relations may also be considered a criticism, expansion, correction and theoretical advancement of Dunlop’s approach (Moerel, 1994). This theory is associated with Thomas Kochan et al. (see also Kochan, et al., 1983; Kochan et al., 1986), who agree that the external environment influences labor relations, but do not accept that labor relations align automatically to changes in the external environment. According to this model, the actors of labor relations enjoy the opportunity of strategic choice – i.e. they may decide whether to follow or react to environmental challenges or not, and may themselves shape their environment. According to this model, the actors generally fail to react to challenges of the external environment if those were to change the power position of the various actors (decision makers) (Tóth, 1995; Tóth, 1998; Ladó et al., 1999).

According to the theory of functional mutual dependence, actors may follow two strategies: the power-strategy or the consensus strategy. When applying the power-strategy, the actors do not pay attention to the interests of the other party (or parties) when aspiring for their goals; they deny the existence of the other and threaten each other’s legitimacy. In other words, this is a zero-sum game (win-lose). When applying the consensus-strategy (win-win situation), the parties accept their mutual dependence. According to this theory, if one of the actors resorts purely to the power-strategy, neither party will achieve their goal, meaning that the end result will be contrary to the goal of those who applied this strategy (Moerel, 1994).

The Marxist approach to labor relations is built on the fundamental conflict between capital and labor. This theory focuses on social environment in a larger sense, and places class difference at its center. It uses capital ownership, political dominance and production relationship categories to describe labor relations. According to Dahrendorf, the establishment of the system of labor relations also carries within it the “possibility of the institutionalization of class differences” (cited in Ladó, Nacsa & Tóth, 1999, p. 15).

I believe it is important to mention here the proliferation of so-called human resource management approaches. According to these approaches, the most effective way toward the regulation of the world of labor is to “target” employees directly, as individuals,
without collective bargaining or other institutions of participation (Kochan, Katz & McKersie, 1986). Those who subscribe to this approach believe that the individual cooperativity, individualization, a trusting relationship and self-control which are placed in the spotlight are more effective than pluralism, collectivity, and mistrust between the parties or external control. In other words, this approach suggests there is no need for trade unions at all.

To summarize the above, labor relations deal primarily with an examination of the opposing interests and conflicts between the actors: trade unions – when trade unions are not included in the subject of the regulation of labor relations, then the literature speaks of “employee relations” rather than labor relations (Beardwell & Holden, 1994) –, employers and government. This covers the economic, social and political environment which defines their relationships, the process and rules of conflict resolution (and the makers of these rules) as well as the effects of these factors on the labor market and on the organization of labor (Tóth A., 1995; Neumann, 2001).

Although a European social model exists, the situations of the various countries as far as the protection of welfare and regulation of the labor market is concerned is highly divergent, and we thus encounter different approaches and institutional solutions. Because of the different labor market institutions and guidelines, the subject and focus of the analysis may also differ. To begin, even the understanding of employment relationships is different from country to country (Milner 1994, 28 cited in Hyman, 2007).

In the Anglo-Saxon countries, the concept applies primarily to bilateral relations between employers and employees, which are also impacted by external actors, such as the government or the trade unions. In France, however, it includes several stakeholders and represents not merely an economic approach, but encompasses rights, obligations and a complex system of responsibilities which lend a specific status to employees. In continental Europe, the collective regulation of employment relations is thus deeply ingrained in other social subsystems, which is not the usual approach in Anglo-Saxon countries.

In Hungary, the concept of labor relations took root in the late 1980s and in the early 1990s. Previously, researchers attempted to describe categories of labor relations
through an expansion of the sociological and social scientific concept of interest reconciliation (Ladó, Nacsa & Tóth, 1999, p. 6).

It was Lajos Héthy and Csaba Makó who introduced the concept of interest reconciliation in Hungary; their definition reflected (and continues to reflect) the segmented and unsegmented nature of society (as opposed to the concepts of social dialogue, collective bargaining and collective negotiations) (Lux, 2003, p. 145).

As a result, a special set of concepts evolved in the Hungarian study of labor relations; we do not encounter this in other developed market economies (Berki, 1999). According to the traditional interpretation of the concept of labor relations, the system of national consultations does not form a part of labor relations. These are institutions of social dialogue, in a broader sense, or – as it is known in Hungarian terminology – institutions of interest reconciliation (Ladó & Tóth, 1996, p. 14). In Hungary, however, the concept of interest reconciliation covers all institutions of labor relations (Berki, 1999). Based on the above, then, the content and the relationship between the concepts of interest reconciliation and labor relations are not yet settled in Hungary.

Labor relations are taken to mean the system of institutional relationships between employees, employers and interest representation groups, aimed at sustaining cooperation and preventing and resolving conflict (Tóth F.; 1998, p. 5) (Ladó, Nacsa & Tóth: 1999, p. 6)

The use of the concept of social dialogue (or labor relations – going forward, I will use the two concepts interchangeably) is thus not consistent, and differs from country to country as well as over time (Ishikawa, 2003, p. 3). According to the broad definition offered by the ILO, social dialogue includes every kind of negotiation, consultation or exchange of information between representatives of government, employees and employers, in every area which may be a common interest, in the area of social policy and economic policy.

Because the interpretation of social dialogue differs from country to country, the exact role and situation of the various forms of social dialogue depends heavily on the institutional background of the specific country. From this perspective, it is important to emphasize the three functions of social dialogue (ENA 2004, p. 4-6 cited in Hyman 2010, p. 11), which takes into consideration the relationships between the various actors. The figure below describes these relationships.
The negotiating function of labor relations encompasses a narrow, traditional interpretation of labor relations: the bilateral system of relations between employers and employees. This function includes both a procedural (making employee participation possible and conflict management) as well as a contentual dimension (sharing the profit and improving working conditions). The regulatory function depicts tripartite relationships, with the involvement of government. This provides a framework for interests to appear, through establishing regulations and by controlling labor market competition. The third function, cohesion, is aimed at managing social welfare institutions, the integration of employees in society and increasing the legitimacy of the social market economy. Based on the latter, we may draw the conclusion that social dialogue leads to social consensus. (In reality, however, this is a far more complex issue, since the effectiveness of social dialogue is not primarily a question of consensus, but of trust; it is also of critical importance whether it is the process or the content which becomes important.) (Hyman, 2010, p. 12)

In the focus of my paper is the negotiating function of social dialogue; specifically, an examination of that in one specific industry, with a special focus on the effects of the financial and economic crisis.

Thus, the institutional system of labor relations includes the following:

- macro-level dialogue, consultation (in the public sector and in the private sector, which is aimed at understanding the major directions of economic and social policy);
- sectorial social dialogue;
- the system of collective negotiations and agreements;
• the institutions of employee participation;
• the institutions of labor disputes and their resolution; including the utilization of pressure mechanisms (e.g. strikes);
• individual labor relations (employment contracts, individual employment disputes);
• and, nowadays, social dialogue realized on the level of the European Union.

Of the various elements of the institutional system above, I will examine the system of collective bargains and the institutions of employee participation. I will examine the concept and evolution of participation in Chapter IV.

III.2. Varieties of Social Dialogue

The way a country responds to a challenge is influenced in part by the nature of the institutions it operates, and how these are historically rooted. The literature, when comparing the different models of capitalism, describes several alternative approaches.

One of the most frequently cited works is that of Hall and Soskice (2001), entitled “Varieties of Capitalism,” which places an analysis of companies at its focus. The way how companies retain or develop their fundamental capabilities depends on the coordination of the following institutions (Hall & Soskice, 2001, p. 7). First, on labor relations (and their institutional system). Secondly, on the situation of professional training and instruction – i.e. on how much a company and its employees are willing to devote to this. This, of course, also defines the competitiveness of the entire economy. The third factor is the question of corporate governance, which affects the issue of financing. The fourth institution is the model of inter-company relations; and the fifth is the question of the competence of employees and cooperation with them and among them. Based on all of these, the authors differentiate between coordinated (CME) and liberal market economies (LME) (Hall & Soskice, 2001).

In a coordinated market economy, some examples of which are Germany and the Scandinavian countries, the market is not the defining coordinating mechanism, but inter-company relations are characterized by cooperation. Wage negotiations generally take place on an industry-wide level, and the level of organization in terms of trade
unions is fairly advanced. The product market strategy is founded on quality diversification, whose basis is provided by highly skilled labor. The production of complex products demands that decision-making be delegated to the level of employees; this is aided by new models of labor organization. The acquisition of sector or company specific knowledge is expensive, making long-term commitment an important factor. One consequence of this is that employee groups (or their interest protection organizations) join the decision-making processes of the company.

In a liberal market economy, like in England, the market and the hierarchy are the main coordinating mechanisms. Inter-company relations are defined by competition. Wage negotiations are conducted generally on the level of the specific organization, and the level of the membership of trade unions is fairly low. The product market strategy emphasizes competitive services and innovative developments. This, due to the rapid changes in the way work is organized and rapid changes in technology, places management oversight and management decisions at its focus, over employee participation. Thus, on the employee side, the emphasis is placed on competences.

According to Sapir (Sapir, 2005), there is no single European Social Model; there are, rather, several different models which differ from one another both in efficiency and in fairness. The point of departure for Sapir’s analysis is that due to the single market and the economic and monetary union, national-level maneuvering room is confined to the areas of social policy and the labor market. The Nordic countries (Denmark, Finland, Sweden and the Netherlands) boast a strong social web underpinned by solid financial support and strong trade unions. In the Anglo-Saxon countries, benefits are tied to the amount of time spent working, and the activity rate is of defining importance. In terms of the labor market, there is a broad wage gap, while trade unions are weak. In the continental countries (Austria, Belgium, France, Germany and Luxembourg), the system is built on insurance-type benefits and pensions, and the level of unionization is generally high. In the Mediterranean countries (Greece, Italy, Portugal and Spain), the majority of social expenditures go toward pensions. The employment level is important, and this is aided by early retirements (Sapir, 2005, p. 5-6). Boeri (2002, cited in Sapir, 2005) separates the four models along three dimensions: the reduction of wage inequality and poverty; the mitigation of labor market risks; and rewarding entry into the labor market.
Depending on how effective these models are (i.e. to what extent they contain appropriate motivators to assist joining the labor force, or how high employment is), and on how fair they are (to what extent they manage to mitigate the risks of poverty – which is defined primarily by the level of schooling), the following typology emerges. In the case of the Nordic and the Mediterranean countries, we cannot speak of transfers between the two dimensions. Nordic countries are efficient and fair, while the Mediterranean countries are generally neither.

Table 3: The typology of the four European models

<table>
<thead>
<tr>
<th>Efficiency</th>
<th>Fairness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>low</td>
</tr>
<tr>
<td>low</td>
<td>continental</td>
</tr>
<tr>
<td>high</td>
<td>Mediterranean</td>
</tr>
</tbody>
</table>

Source: Sapir (2005, p. 9)

As far as the Central-Eastern European region is concerned, Bohle and Greskovits (Bohle & Greskovits, 2007) point out that these countries carry different path-dependent characteristics which also influence the development of capitalism.

There is no consensus in the literature as to which model these countries are converging towards and which they resemble the most. Some believe these countries belong to the group of Mediterranean countries, while others believe they are leaning more towards the continental countries (Lane, 2007; McMenamin, 2004). Some studies examining the varieties of capitalism conclude that the theoretical framework cannot be applied to the Central-Eastern European region (Myant, 2007).

Several studies encourage the development of a new model, which would emphasize their difference from the existing types of countries. Nölke and Vliegenhardt (Nölke & Vliegenhardt, 2009) suggest using the typology of “dependent market economies” for the Visegrád Four, which is characterized by an imposing presence of foreign capital and multinational corporations.
Table 4: The comparative institutional advantages of dependent market economies

<table>
<thead>
<tr>
<th>Institution</th>
<th>Liberal market economy</th>
<th>Coordinated market economy</th>
<th>Dependent market economy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Differentiation coordinating</strong></td>
<td>competitive market and formal contracts</td>
<td>networks within the</td>
<td>dependence on the internal hierarchy of</td>
</tr>
<tr>
<td><strong>mechanism</strong></td>
<td></td>
<td>organization</td>
<td>multinational companies</td>
</tr>
<tr>
<td><strong>Primary source of investments</strong></td>
<td>domestic and international capital markets</td>
<td>domestic bank loans,</td>
<td>FDI and foreign-owned banks</td>
</tr>
<tr>
<td><strong>Company management</strong></td>
<td>external control and fragmented</td>
<td>internal control and</td>
<td>parent company headquarters maintains control</td>
</tr>
<tr>
<td><strong>Employment relations</strong></td>
<td>pluralism, market-based and few</td>
<td>concentrated shareholders</td>
<td></td>
</tr>
<tr>
<td><strong>Training/professional training</strong></td>
<td>general competences, high R&amp;D</td>
<td>company or industry</td>
<td>limited investment in further innovation</td>
</tr>
<tr>
<td><strong>Comparative advantage</strong></td>
<td>radical innovation in the field of</td>
<td>incremental innovation of</td>
<td>assembly platforms for moderately standardized</td>
</tr>
<tr>
<td></td>
<td>technology and services (and</td>
<td>investment goods (high-quality industrial products)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>competitive products in markets with a</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>high sensitivity to cost)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Nölke and Vliegenhardt (2009, p. 680)

Beáta Farkas, in her cluster analysis of the European Union, examined product markets, the system of research and development and innovation, the financial system, the labor market and labor relations, as well as social protection and education. She concluded that “post-socialist member states comprise a new market economy model, whose unique features are defined by their original characteristics existing at the beginning of the transformation of their economic systems” (Farkas, 2001, p. 50). In terms of labor market and labor relations, this group of countries is characterized by a low level of employment and activity, and by the fact there are significant differences in unemployment levels within each country. “Following the system change, the level of trade union organization suffered greatly when socialist large corporations ceased to
exist or were privatized; new trade unions, or those which remained, silently lent their support to painful reforms seen as inevitable. Employer organizations as such did not exist, and had to be created anew. Collective bargains were decentralized, and trade unions shied away from taking action even if there were problems in the implementation of the collective agreements (Farkas, 2011, p. 61). The differences from the other models may be traced back to three fundamental factors: the lack of capital, a weak civil society and the expectations and effects of the European Union or other international organizations. The table below summarizes the features of the new model borne out of this empirical research, compared with the institutional systems of the old member states.

Table 5: Similarities between the Central-Eastern European model and the models of the old member states

<table>
<thead>
<tr>
<th>Institutional area</th>
<th>Characteristics and similarities of the Central-Eastern European model compared with the models of the old member states</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product markets</strong></td>
<td>The carrier of the advanced technological level is foreign direct investment. Located between the Continental and the Mediterranean model; countries belonging to this group are less flexible product markets than the former, but more flexible product markets than the latter group.</td>
</tr>
<tr>
<td><strong>R &amp; D and innovation</strong></td>
<td>R&amp;D expenditures are low, primarily due to low investment by the business sector. Because of the presence of foreign direct investment, there is a smaller gap in the economy compared to old, non-Mediterranean member states than in R&amp;D. Resembles the Mediterranean model.</td>
</tr>
<tr>
<td><strong>Financial system</strong></td>
<td>Bank-based; the presence of foreign banks is of defining importance in the banking sector, with a marginal role for money-markets. This corresponds to the Continental model (in this area, the financial system of the Mediterranean countries can be described using the continental model), but is at a far less developed level.</td>
</tr>
<tr>
<td><strong>Labor market and labor market relations</strong></td>
<td>The labor market does not have the type of duality typical of the Mediterranean and continental models, which brings it closer to the Anglo-Saxon model, but the labor market is less flexible than the latter, and is in the intermediate range. The amounts spent on labor market tools and the level of employment are low, as is the level of trade union organization. Trade unions are flexible in collective bargains. The state plays an organizing role in labor relations, just as it does in the Mediterranean model; the relationship of employees and employers is not conflict-ridden. Only Slovenia is among the continental countries.</td>
</tr>
<tr>
<td><strong>Social protection</strong></td>
<td>Poland, Hungary and Slovenia match the Continental model, being a “more modest” version thereof. In the other seven post-socialist countries, the level of welfare expenditures is low, and there are high income disparities. This likens them to the Anglo-Saxon model, although in terms of financing structures, they have retained traditions of continental social security systems.</td>
</tr>
</tbody>
</table>
Institutional area | Characteristics and similarities of the Central-Eastern European model compared with the models of the old member states
--- | ---
**Education system** | The breadth of the education system matches approximately the EU average, but the level of employment is lower, especially among those with lower levels of schooling. Educational expenditures are below average. In international tests, students of the new member states show a wide spread. Only Slovenia reaches the level of those – primarily Nordic – countries where the education system is the most effective. There are no clear models in this subsystem as in the others, but the new member states show a similarity primarily with the education system of the continental countries.

Note: Cluster member states: Northwestern (Austria, Belgium, Denmark, United Kingdom, France, the Netherlands, Ireland, Germany); Mediterranean (Greece, Italy, Portugal, Spain); Nordic (Finland, Luxembourg, Sweden); Central and Eastern European (Bulgaria, the Czech Republic, Estonia, Poland, Latvia, Lithuania, Hungary, Romania, Slovakia, Slovenia).

Source: Farkas (2011, p. 68)

The most recent studies (Hamerijc, 2013; Dräbing, 2014) treat the new, eastern member states of the European Union as belonging to one group. In her capitalism-critical studies, Erzsébet Szalai (Szalai, 2012) also emphasizes the similarities among the capitalist systems which have evolved in the region, citing the semi-peripheral situation of the various states. In their analysis, Szikra and Tomka (Szikra & Tomka, 2009) however point to the differences and uncertainties in the patterns of development of the various countries, ascribing these primarily to the different solutions and various aspects of the establishment of the welfare state.

In other words, not even the Central and Eastern European model is uniform. Bohle and Greskovits (Bohle & Greskovits, 2012), by developing a six-dimensional analytical framework, differentiate between three groups of countries. Their model is based on analyses of market efficiency, governmental policy, social cohesion, macro-economic coordination and the functioning of democracy and corporatism (Bohle & Greskovits, 2012, pp. 19-25), which are examined on a scale from highly favorable to radically unfavorable. In a favorable situation, macro-economic coordination ensures stability; in an unfavorable situation, however, it serves as an obstacle of development; the market in a favorable situation strengthens efficiency, while in an opposite situation it leads to the dominance of goods trading. Democracy is assessed on the basis of the representation of values, while governmental policy is a function of accountability. In a positive situation, corporatism improves the quality of specialized policies by representing various interests, while functioning as a welfare state creates social
cohesion, but an opposite approach leads to the dependence of the poor on welfare support payments.

This approach, assessing the various dimensions on a scale, and the frame of interpretation itself, confirms not only the existence of certain models, but also highlights the inherent tensions within these models. Based on this, the authors distinguish between three regimes of development: neoliberal (the Baltic states), embedded neoliberal (the Visegrád countries) and neo-corporative (e.g. Slovenia). The states of southeast Europe, because of their weak systems of institutions, were not clearly assigned to one group. The difference between neoliberal and embedded neoliberal development paths is accounted for by measures implemented for the protection of socially and politically vulnerable persons. While in the former case there have been no efforts made to compensate the losers of the transformation, the embedded model is characterized by a desire for compromise between market transformation and social cohesion. A further difference is that while the economic priority of the Baltic states is the creation of macro stability, the Visegrád countries tend to focus primarily on industrial development. In contrast, the reconciliation of macro-stability and other economic and social policy considerations in Slovenia was achieved through the help of the systems of neocorporatist institutions (e.g. prescribed consultations between management and employees; expanded collective agreements). In this theoretical framework, then, political elections (the identity- or welfare-policy-based legitimacy of capitalist regimes) have real significance, and thereby emphasize the role of the political elite.

In terms of the international economic linkages of Central and Eastern European states, Bohle and Greskovits distinguish between semicore and semiperipheral patterns, according to the following: the role of complex processing industry branches in production, employment and export; the degree of working capital flowing to these areas; and trends in specific expenses in these sectors. The international economic integration of the Baltic countries, with their neoliberal patterns, is more semiperipheral in nature, while the Visegrád countries and Slovenia show semicore characteristics.

The development path chosen and political decisions have influenced social consequences as well as the role and position of social dialogue. They impact the evolution of salaries and working conditions, as well as the appearance of regional differences and differences between the various sectors.
In terms of the role of social dialogue, the Baltic states demonstrate a low level of trade union organization and decentralized wage talks; collective agreements protect only a very small percentage of employees. In Slovenia, with the operation of the country’s neocorporatist system of institutions, coordination between management and employees has become institutionalized on a national, sectoral and company level, along with the harmonization of the conditions and outcomes of welfare, industry and macroeconomic policies. In the Visegrád countries, instead of institutionalizing the roles of social partners, attempts were made to compensate the losers of the transformation through generous, and in part ad-hoc, but in part targeted, welfare and protectionist packages. 

(In Poland, for instance, the unemployment welfare system, the regulation of the minimum wage and the establishment of the retirement system; in Hungary, the combination of unemployment aid and various types of family support and the introduction of early retirement.) (Bohle & Greskovits, 2007) Thus, trade unions played a larger role primarily in the earlier stages of the transformation. In these countries, a similar pattern evolved despite different political backgrounds and different trade union powers and roles: a decreasing level of organization, a weak power to mobilize and an institutional system consistently dependent on the state (Bohle & Greskovits, 2012, pp. 146-152).

In addition to the different institutional system and operating logic of the various countries, it is possible for several models to be present within one country; i.e. a single economic system may not always be described by using one model. The theory of segmented capitalism points out that within each country, there may be broad differences between the various sectors (Martin R., 2008). In the case of post-socialist countries, Martin (2008) differentiates between four sectors: the national, the privatized, the de novo and the international sectors. They differ from one another along the following dimensions: ownership structure, capital accumulation, areas of operations, access to local and international markets (as far as production systems and product markets are concerned) and the role of the state and politics. Trade unions may play different roles in the various sectors, especially when considering ownership structures. One good example of this is that of Hungary, which I present in the following chapter. Makó et al. (2015), using the framework proposed by Martin, distinguished four groups of enterprises in Hungary according to ownership structure, market environment, company size, company age, field of activities and geographic location: “Hungarian
(small) industry,” residential service provider, Hungarian business service provider and internationally oriented corporations. These groups, both in terms of their training practices as well as their patterns of organizing work, are different from one another. Their analysis shows that the various segments differ from one another not only in their patterns of operations and knowledge use, but also in terms of their integration mechanisms (Farkas et al., 2012). Parallel with this, the latest research studies show that the institutional impacts of capital economy (e.g. the varieties of capitalism) are not enforced mechanically on the corporate level, and that organizational culture (strategies) play an important role for instance in the shaping of patterns of knowledge and labor use of work activities (Gallie, 2012).

Another theoretical frame is provided by the question of convergence and divergence, which involves not just an examination of the institutional system, but also that of the various actors and the outcome of the dialogue. The background for this is provided by Katz and Darbishire’s (Katz & Darbishire, 2010) theory of “converging divergences,” as well as by Hall and Soskice’s (Hall & Soskice, 2001) theory of “dual convergence,” built on it. In the case of the former, the authors suggest that the system of national labor relations is influenced by certain defining trends which may be connected to the decline of trade unions and the growth of inequality. All of this serves to increase differences between nations, while also leading to the various sectors within one country becoming increasingly similar. Hall and Soskice (2001) emphasize, on the other hand, that there is an increasing difference between liberal market economies and coordinated market economies, while the system of countries which may be grouped together is becoming increasingly similar.

III.3. Social Dialogue in Hungary

In the 1960s and 1970s, the rules of social dialogue underwent fundamental change throughout continental Europe. The changes pointed in the direction of the institutionalization of social dialogue. Certainly, many factors served as the drivers of this trend, not all of which can we examine here. The confrontation of parties with opposing interests was gradually replaced by institutions of cooperation between the state and various interest groups, and the procedural regulations of dealing with conflict
were put in place. Political and economic cooperation between adverse groups (governments, employment organizations and trade unions) is made easier if the parties speak the same language (i.e. if there is much in common in terms of values and world views). An economic upswing also makes dialogue easier (let us think back to the economic boom of the 1960s), since a boom increases the maneuvering room of the parties. These conditions were present in the 1960s and 1970s, resulting from Keynesian economic policies and efforts at establishing a welfare state. At the same time, the movements which appeared and gradually gained ground across various segments of society forced governments to explore opportunities of cooperation with various social groups (Thoma, 2002). The 1960s and 1970s therefore saw paradigm shifts emerge as far as dialogue is concerned with various segments and groups (Reuter, 1991, p. 69-104).

With the welfare state in danger, the weakening of Keynesian economic philosophy, the evolution of economic downturns and crises etc., the institutions however did not disappear. True, their operations were made more difficult by an increasing number of contradictions, at times serious ones. The new institutions of social dialogue proved to more durable than the conditions which first established them. The principle, however, that the state – by institutionalizing social dialogue – is able to integrate diffuse and divergent interests and is thus not forced to constantly oppress special interests, and that confrontation is gradually replaced by cooperation, became a part of the way of thinking in continental Europe. This legacy of the 1960s and 1970s lives on not only in European integration processes, but has become a part of the political and economic reforms of the post-socialist transformation of Central and Eastern Europe (Schmitter, 1997; Thoma, 2002).

The situation of interest reconciliation in Hungary was defined by the fact that – owing to rapid economic and social changes – it did not evolve through an organic process (Neumann, 2009). In my thesis, I will not comprehensively trace the transformation of the institutional system, but will – by highlighting certain turning points and by exploring the dimensions of the legitimacy of trade unions – introduce the current situation of social dialogue, focusing especially on the corporate level.

I will be introducing empirical data primarily based on the findings of “Workplace Employment Relations – 2010,” a large-sample study performed using questionnaires. This study was the first attempt in Hungary to map the world of work using the
methodology of so-called “linked questionnaires” – i.e. by examining the joint attitudes of employees and employers.

III.3.1. The Legitimacy of Trade Unions

The legitimacy of trade unions is defined by several interlinked factors (Makó Cs., 1991; Thoma, 2002) which must be reinterpreted over and over again. Only by confirming or detracting from one another do the factors jointly define the legitimacy of trade unions.

The three most important indicators of the legitimacy of trade unions are: organization (what percentage of employees belonging to the same interest group support the organization by sustaining an active membership), mobilizing power (what size crowd is the trade union able to mobilize through its actions) and partnership which, regardless of the organization of the members and the mobilizing power, may provide for the legitimacy of the specific organization. Below, I will examine the evolution of these factors in Hungary.

III.3.1.1. Membership, density

Trade unions must reach a certain level of organization (representativity) to be able to represent a certain segment of a profession or a sector. “Trade unions’ ‘representativity’ is also able to indicate the socially and professionally validated activity, action positions and abilities of an employee interest group” (Makó Cs., 1991, p. 56).

The extent and content of representativity is greatly defined by the status of confidential relationships and the maturity of confidential relationships. Csaba Makó and Ágnes Simonyi differentiate between two major components of confidential relationships (Makó & Simonyi, 1990 cited in Makó, 1991, p. 56). “First is technological competence – or professional know-how – while the second is moral competence, or responsibility for the community, one another’s values, tolerance for others’ values and acting according to mutually respected norms.” Insecurity stemming from political and economic changes may be counterbalanced by the actors’ confidence in one another in the realm of labor relations.

The theory of functional mutual dependence in labor relations, described already, emphasizes this factor, while also emphasizing the importance of the consensus
strategy, as well as the pluralistic position of internal relations inside an organization, focusing on the resolvability of conflict.

One measure of the organization of a union is *its membership and their ability to pay dues*. Dividing the number of individuals belonging to the organization by the number of individuals belonging to the particular segment provides one indicator of representativity. This legitimacy dimension compares the actual and the potential membership of a trade union. It indicates the extent to which society and various segments of employees believe the operation of the trade union is important and legitimate or, more precisely, how many of them actually join the union.

We are lacking exact numbers of trade union membership in Hungary. These numbers are always based on a figure declared by the union itself, and while there may be unofficial ways to check the data, these cannot be considered verified.

According to a 2010 survey, the level of *employee density* is 13% in Hungary among those employed. Examining employer figures, the density of organized workplaces is 22% on average. It is only the density of companies owned by Hungarian private owners (14%) and companies owned exclusively by the Hungarian state (43%) that differ significantly from the above-mentioned average (Grajczjár, Neumann & Tóth, 2010).

Table 6: Trade union presence and density according to ownership structure (trade union presence N=897; density N=220)

<table>
<thead>
<tr>
<th></th>
<th>Trade union presence</th>
<th>Density</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hungarian only, majority privately owned</strong></td>
<td>8%</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Hungarian state owned</strong></td>
<td>58%</td>
<td>43%</td>
</tr>
<tr>
<td><strong>Foreign owned only</strong></td>
<td>20%</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Hungarian and foreign mixed ownership</strong></td>
<td>21%</td>
<td>20%</td>
</tr>
</tbody>
</table>

*Source: Grajczjár et al. (2010, p. 155)*

Considering the size of the companies, density *shows a direct correlation with the size of the company*. At companies employing between 10 and 19 people, it is just 4%; at companies with 20-49 employees, it is 17%; at companies with 50-249 people, it is
25%; and at companies employing over 250 people, the level of trade union membership is 39% (Grajczjár, Neumann & Tóth, 2010, p. 156). The greatest difference is in the breakdown of workplaces according to the “age” of the company. According to employee data, companies which have existed for 20 years or more see 30% trade union membership currently; at companies between 16 and 19 years old, the figure is 9%; at companies between 10 and 15 years old it is 6%; and at companies which have been around less than 10 years, 10% of employees are trade union members (Grajczjár, Neumann & Tóth, 2010, p. 158).

According to the survey, we may also conclude that trade union presence is heavily sector-specific. An examination of employer data shows that trade union density is highest in the case of energy and water management (41%), with companies working in the construction industry (15%), commerce (17%), services (18%) seeing the lowest membership; the processing industry is at 20% (Grajczjár, Neumann & Tóth, 2010, p. 156).

The 2010 survey also clearly shows an aging membership, a finding also confirmed by the Central Statistical Office Labor Force Reports (2005 and 2009) (Grajczjár, Neumann & Tóth, 2010, p. 175).

Examining the presence of trade unions: 25% of employees said a trade union is present in their workplace. A survey of managers shows they believe this figure to be much higher, with managers claiming in their questionnaire that 41% of employees work at a company with a trade union (Grajczjár, Neumann & Tóth, 2010, p. 160-161).

On the whole, we may conclude that while just over twenty years ago, nearly three-fourths of employees were trade union members (Neumann, The State of Trade Unionism in Hungary, 2007) – although mandatory membership certainly played a role in this high percentage – today this figure is approximately 20%.

In terms of the reasons: trade union representatives and leaders provide the following explanation. “Nearly one-half of trade union representatives surveyed believe their union does not have more members because they fail to deliver visible results (48%); two-fifths believe the union has lost credibility in the previous system, people believe it is a socialist remnant (42%) and nearly one-third say membership dues are too high (31%). Twenty-eight percent of trade union representatives asked believe their organization does not have more members because they are lacking the appropriate
mandates or because they offer too few services; one-fifth believe workers are afraid to join (19%). Leaders point in part to disinterest on the part of employees (71%) and in part to the lack of suitable organizers (35%) for the failure to launch or sustain a trade union. Seventeen percent of trade union leaders asked believe the company does not support the establishment of a union, with an additional 17% suggesting that a trade union was not established because of the existence of a works council. One-fourth believe the reason no trade union was established was that the workplace conflict had been resolved (26%)” (Grajczjár, Neumann & Tóth, 2010, p. 235).

III.3.1.2. Mobilizing Power

Trade unions must serve as a type of mobilizing power in order to demonstrate their support base through their actions (e.g. strikes and demonstrations). Their authority – enforced both within the trade union alliance as well as within member organizations – indicates the extent to which the particular organizational unit is able to take steps, make decisions and organize events enjoying the support of the majority of its membership. This dimension, then, on the one hand indicates the extent to which trade unions are able to actually represent the interests of their members, how much their goals are in line with those of the members and how much confidence their members have that these goals will be achieved. On the other hand, it also shows the extent to which these goals and interests are acceptable to other groups and members of society. External support and the influence of the masses may be deduced in view of the results of trade union elections.

The mobilizing power of trade unions can be assessed based on the study (Berki, 2011) to be described below. It must be highlighted, however, that the national regulation of collective labor disputes depends on a country’s historical past and political culture. This empirical study, also supported by the necessary theoretical background, examined so-called direct ways of exerting pressure by employees and their interest protection organizations in interest protection disputes which took place between January 1989 and December 31, 2010, and analyzed activities which were applied to protect the economic and social interests of employees.
In the period between 1989 and 2010, a total of 695 such activities were organized, with the yearly numbers showing some fluctuation. Warning strikes, strikes and demonstrations accounted for approximately 70% of these activities.

In the 2000s, the make-up of these activities changed, with the number of strikes reaching a peak in the middle of the decade, but tapering off at a low level toward the end of the decade. The table above also shows that employees and their interest protection organizations, rather than going on strike, opted for demonstrations when attempting to settle labor disputes (Berki, 2011, p. 2). There were 186 strikes where the number of working hours lost and the number of participants is known. In the last eight years, the number of working days lost per one thousand employees was an average of five days a year (Berki, 2011, p. 4). If we examine the unit numbers broken down by sector, we see that industry saw the most activity (205), followed by education and culture (120) and transportation (102).

Table 7: The numbers and nature of activity, 1989-2010

<table>
<thead>
<tr>
<th>Year</th>
<th>Warning strike</th>
<th>Strike</th>
<th>Solidarity strike</th>
<th>Street demonstration</th>
<th>Signature drives</th>
<th>Petition</th>
<th>Other factory event</th>
<th>Miscellaneous</th>
<th>Total</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>13</td>
<td>7</td>
<td>0</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>0</td>
<td>28</td>
<td></td>
<td>4.6</td>
</tr>
<tr>
<td>1990</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>20</td>
<td>3.3</td>
</tr>
<tr>
<td>1991</td>
<td>12</td>
<td>7</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>24</td>
<td>3.9</td>
</tr>
<tr>
<td>1992</td>
<td>7</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>18</td>
<td>3</td>
</tr>
<tr>
<td>1993</td>
<td>13</td>
<td>7</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>30</td>
<td>4.9</td>
</tr>
<tr>
<td>1994</td>
<td>6</td>
<td>5</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>25</td>
<td>4.1</td>
</tr>
<tr>
<td>1995</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>13</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>28</td>
<td>4.6</td>
</tr>
<tr>
<td>1996</td>
<td>4</td>
<td>4</td>
<td>0</td>
<td>6</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>19</td>
<td>3.1</td>
</tr>
<tr>
<td>1997</td>
<td>4</td>
<td>5</td>
<td>0</td>
<td>16</td>
<td>4</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>37</td>
<td>6.1</td>
</tr>
<tr>
<td>1998</td>
<td>9</td>
<td>2</td>
<td>0</td>
<td>7</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>24</td>
<td>3.9</td>
</tr>
<tr>
<td>1999</td>
<td>5</td>
<td>2</td>
<td>0</td>
<td>12</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>28</td>
<td>4.6</td>
</tr>
<tr>
<td>2000</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>33</td>
<td>5.4</td>
</tr>
<tr>
<td>2001</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>10</td>
<td>9</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>33</td>
<td>5.4</td>
</tr>
<tr>
<td>2002</td>
<td>3</td>
<td>5</td>
<td>0</td>
<td>11</td>
<td>3</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>27</td>
<td>4.4</td>
</tr>
<tr>
<td>2003</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>16</td>
<td>4</td>
<td>0</td>
<td>6</td>
<td>10</td>
<td>42</td>
<td>6.9</td>
</tr>
<tr>
<td>2004</td>
<td>4</td>
<td>7</td>
<td>0</td>
<td>10</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>33</td>
<td>5.4</td>
</tr>
<tr>
<td>2005</td>
<td>7</td>
<td>7</td>
<td>0</td>
<td>9</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>28</td>
<td>4.6</td>
</tr>
<tr>
<td>2006</td>
<td>9</td>
<td>3</td>
<td>0</td>
<td>12</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>36</td>
<td>5.9</td>
</tr>
<tr>
<td>2007</td>
<td>6</td>
<td>9</td>
<td>0</td>
<td>28</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>11</td>
<td>59</td>
<td>9.7</td>
</tr>
<tr>
<td>2008</td>
<td>2</td>
<td>6</td>
<td>3</td>
<td>19</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>38</td>
<td>6.2</td>
</tr>
<tr>
<td>2009</td>
<td>3</td>
<td>9</td>
<td>0</td>
<td>20</td>
<td>5</td>
<td>0</td>
<td>4</td>
<td>11</td>
<td>52</td>
<td>7.5</td>
</tr>
<tr>
<td>2010</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>15</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>32</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>138</strong></td>
<td><strong>111</strong></td>
<td><strong>11</strong></td>
<td><strong>233</strong></td>
<td><strong>65</strong></td>
<td><strong>21</strong></td>
<td><strong>46</strong></td>
<td><strong>70</strong></td>
<td><strong>695</strong></td>
<td><strong>100</strong></td>
</tr>
<tr>
<td><strong>%</strong></td>
<td><strong>19.9</strong></td>
<td><strong>16.0</strong></td>
<td><strong>1.6</strong></td>
<td><strong>33.5</strong></td>
<td><strong>9.4</strong></td>
<td><strong>3.0</strong></td>
<td><strong>6.6</strong></td>
<td><strong>10.1</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Berki (2011, p. 2)
While in the early years of the decade, the *activities* were staged primarily over salaries and reorganizations, the number of activities aimed at preventing or influencing layoffs increased toward the end of the decade (Berki, 2011, p. 14).

It can be concluded from the above that trade unions tend to prefer settling disputes through negotiations, and only resort to direct action if they do not see any other alternatives. Strikes are only the “ultimate solution.” Simple dissatisfaction is not manifested through activities. Employees showed a low tolerance for strike intensity over the high social costs of the transformation, a drop in living standards and increasing unemployment.

III.3.1.3. Partnership Role

Trade unions must exercise their rights and obligations in a partnership role recognized by opposing parties and institutionalized as part of the institutional system of interest reconciliation. Complete or partial recognition by employers and government is one of the most important factors of legitimacy as far as trade unions are concerned. Partnership is, essentially, an expression of “*top-down legitimacy,*” or the extent to which trade unions fit in the broader institutionalized systems of their environments. This factor may, *even in itself,* independent of the members or of the factors outlined above, *provide legitimacy for the trade union.* (Certainly, in practice, these factors are generally not independent of one another.)

We may examine the partnership role on the national level, according to the role in the institutional system of interest reconciliation or on a corporate level. I will analyze the behavior of governments and employers towards the trade unions *on the macro level of the interest reconciliation system and through the changes in the mandates of the trade unions.*

The founding of the *National Interest Reconciliation Council (Országos Érdekegyeztető Tanács, OÉT)* in 1988 meant that an institution was created with clearly delimited competences, whose purpose was to replace national salary regulation with a system of collective negotiations. Its tasks and purview extended to negotiations and agreements
It played a critical role, however, as far as the legitimacy of trade unions is concerned, providing institutional guarantees for their autonomy. The OÉT, as an institution, assisted the legitimization of trade unions, making it possible for them to voice their opinion openly outside the political structure. The OÉT functioned until the change of regime.

The Interest Reconciliation Council was established in 1990, with a scope of competence broader than that of the OÉT (covering essentially all of the economy and social policy), but consultation soon replaced co-decision as the most typical right (Ladó & Tóth, 1996). Interest reconciliation, however, provided institutional guarantees for the legitimate operation of trade unions, their partner relationships and their autonomy. These licenses and autonomous partnership roles provided trade unions an opportunity for structural reorganization, and for restructuring their social and political relationships (Thoma, 2002).

The government froze interest reconciliation between 1995 and 1997, and negotiations became little more than formalities. The institution itself, however, did not change. By freezing interest reconciliation, not only were trade unions shut out from consultations, it also negatively impacted their legitimacy.

In 1998, the government transformed the neocorporative institution, in terms of content, to a socially pluralistic institution, while formally maintaining the tripartite neocorporative institution (Herczog, 1999). In the National Labor Council (Országos Munkaügyi Tanács, OMT), for instance, the government engaged only in consultation, or if it listened to the opinions expressed by social partners, it ignored those and pushed through its own will. As a result, the legitimacy of trade unions continued to weaken.

In 2002, one of the principles of the new government declared that the system of interest reconciliation is to be transformed into a dialogue, with the goal of bringing new content to the institutions and renewing them. The OÉT was reestablished to replace the OMT. Officially, this institution was responsible for all issues related to the world of labor, including the economy, employment, matters related to wages including taxes, excise and the budget, as well as debating legislative proposals. In addition to consultation, trade unions could also strive for agreement.

Act LXXIII of 2009 defined the participants of the National Interest Reconciliation Council. Whereas previously, the circle of participants was based on a mutual recognition and acceptance of one another, participation would henceforth be based on
measurements of support, which also led to changes as far as the legitimacy of trade unions is concerned.

The National Economic and Social Council established in 2011 (Act XCIV of 2011) replaced three national fora operating previously (the National Interest Reconciliation Council, the Economic Reconciliation Forum and the Economic and Social Council). This body has no decision-making responsibility, but performs consultative and counseling functions and puts forward proposals. The Council was established to debate comprehensive matters affecting the development of the economy and society and national strategies spanning several government cycles, as well as to promote the development and implementation of social models related to balanced economic development. It remains too early to draw conclusions as far as the effects of the work of the Council on trade union legitimacy are concerned.

The fact that European integration processes have advanced the international influence of trade unions may also affect their partnership role. Several trade unions are participating in the work of the European Works Councils, which provide the right to information and consultation for workers of community-level companies and corporations within the European Union (Arató, 2001, p. 117-131). Thus, Hungarian trade unions have an institutionalized role in the EU’s institutions of social dialogue. Representative trade unions are members of the various sectorial or federative European and international trade unions alliances. This increases not only their legitimacy, but also their international influence. The fact, however, that trade unions in Hungary did not institutionally participate in accession negotiations (Boda & Neumann, 2000) in itself proves that international influence does not necessarily increase the domestic legitimacy of these organizations, although that may be a defining factor on the corporate level.

The transformations outlined roughly above show that labor institutions are subject to the will of the governing coalition in office at any one time, their political sympathies or reservations; thus, the partnership role and legitimacy of trade unions also changes accordingly.

It is possible to examine the partnership role not just on a national, but on a corporate level. The number and frequency of the talks as well as the issues raised there all
influence this role, which may also be characterized by the collective bargains. The presence and tasks of works councils may also impact the participation of employees in decision-making processes.

According to the 2010 survey, we may conclude the following in terms of the frequency of negotiations. “Nearly three-fourths of the trade union representatives surveyed (73%) stated that they hold regularly scheduled meetings with the management. Nearly one-third (31%) said such meetings take place at least once every six months, while more than one-fourth (27%) said a scheduled meeting takes place with the management every three months; roughly the same number (26%) said they hold such meetings on a monthly basis. Twelve percent of those asked reported participating in such meetings once a year; 4% said this happens less than once a year. These numbers clearly suggest that the majority of trade unions surveyed engage in regular and ongoing “negotiations, consultations and information-exchange with their management” (Grajczjár, Neumann & Tóth, 2010, p. 190). It must be added to the figures, however, that “it was primarily those larger companies that were included in the sample where labor relations are generally good and where there is an acceptable relationship between the trade unions and company management (Grajczjár, Neumann & Tóth, 2010, p. 154).

In terms of the topics which come up most often in meetings with the management (employment, salaries, future plans, welfare services, working hours, work organization, production and finances) and in terms of the frequency of meetings, we may conclude that trade unions take part in corporate decision-making. The data of the survey also show, however, that “corporate management sees trade unions primarily as institutions of problem solving and acquiring information, the primary benefit of which is that it helps employees accept production goals and the principles of the management” (Grajczjár, Neumann & Tóth, 2010, p. 167).

According to the relevant law (Act I of 2012 on the Labor Code), “works councils must be established at all places of employment which fall under the scope of the Labor Code, and where the number of employees exceeds fifty. A shop chairman must be elected at all places of employment where the number of employees exceeds fifteen, but is less than fifty-one.”
One of the major surprises of the 2010 survey was the separation of the works council officers’ positions and that of the members, as well as the position of the head of the trade union (Grajczjár, Neumann & Tóth, 2010, p. 174). “More than half of the trade union representatives surveyed do not hold any kind of works council or shop chairman position (59%). Only one-fourth of the trade union leaders surveyed are also members of the works council (27%), and 5% also act as shop chairmen. Only 9% of those surveyed hold both the position of trade union leader and works council leader.” The consensus in the literature – that membership on the works council and membership in the trade union tend to coincide (Benyó, 2004) – is not supported by the survey, as there are a significant number of workplaces where there is a works council or shop chairman, but where there is no trade union (Csabai & Kisgyörgy, 2010, p. 282).

Results of the survey show that “the definitive legal dividing line between the works council and the trade union is in nearly half of all cases blurred, and the leaders of the trade union, the works council and the company hold negotiations together. It is as though workplace representations systems only had a single channel in half of the trade unions surveyed; or it at least seems as though the works councils generally also tend to get involved in the resolution and negotiation of ’interest protection’ issues” (Grajczjár, Neumann & Tóth, 2010, p. 189; Csabai & Kisgyörgy, 2010).

Eleven percent of the places of employment included in the 2010 survey had a company collective agreement in place, while 2% reported a collective agreement signed jointly by several employers. If we consider the number of individuals employed as our reference number, then 34% of employees work for an employer with a company collective agreement, and 23% work for an employer with a sectorial collective agreement in place. The combined coverage of collective agreements is 23% (Grajczjár, Neumann & Tóth, 2010, p. 223).

The size of the company influences the coverage by collective agreements, as summarized in the table below.
Table 8: Company and sectorial collective agreements according to the number of employees

<table>
<thead>
<tr>
<th>No collective agreement</th>
<th>Company collective agreement</th>
<th>Collective agreement applicable to several employers</th>
<th>Total</th>
<th>Sectorial collective agreements</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-19 employees</td>
<td>67%</td>
<td>33%</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>20-49 employees</td>
<td>11%</td>
<td>77%</td>
<td>11%</td>
<td>100</td>
</tr>
<tr>
<td>50-249 employees</td>
<td>11%</td>
<td>80%</td>
<td>9%</td>
<td>100</td>
</tr>
<tr>
<td>over 250 employees</td>
<td>4%</td>
<td>85%</td>
<td>11%</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Grajczjár et al. (2010, p. 244)

Ninety-two percent of trade union leaders negotiate about the collective agreement with the top leader of the company; 51% talk to the personnel or HR director; 20% talk to the owner; while 21% negotiate with another official appointed.

The most frequent topics regulated by collective agreements were the following: general salary issues, labor issues (avoiding absence from the job, reducing turnover and employment contract types), determining working hours and welfare matters (Grajczjár, Neumann & Tóth, 2010, p. 226).

Examining the data of the market sector, the number of collective agreements covering several employers has increased compared to last year (from 40 to 45), while the number of agreements applicable only to one employer has dropped (from 214 to 202) as a result of the crisis (Borbély et al., 2015, p. n/a).

As the table below shows, collective agreements are generally established on the level of the company, and according to the Labor Code apply to each employee of the company regardless of their membership in the trade union.
Table 9: The number and coverage of collective agreements at the various levels

<table>
<thead>
<tr>
<th>Sector</th>
<th>Type of agreement</th>
<th>Number of agreements and renegotiated agreements</th>
<th>Number of agreements, number of employees covered, coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business sector (privately and state-owned companies)</td>
<td>Company level (one employer)</td>
<td>264</td>
<td>216</td>
</tr>
<tr>
<td></td>
<td>Several employers (multi-management)</td>
<td>7</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Several employers (sectorial)</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Public sector</td>
<td>One organization</td>
<td>148</td>
<td>139</td>
</tr>
<tr>
<td></td>
<td>Several organizations</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>419</td>
<td>369</td>
</tr>
</tbody>
</table>

Source: Neumann, Tóth, Edelényi, Berki & Tarnóczyné (2009, p. n/a)

III.3.2. Conclusion

In this sub-chapter, I have reviewed the most important dimensions of the legitimacy of trade unions, and through these have described the situation and the current trends of social dialogue. I have examined what I believe are the most important factors in Hungary, looking at the extent to which society and the various types of employees believe the operation of trade unions is important and legitimate. More precisely, I examined their willingness to join trade unions (organization), the ability of
trade unions to mobilize a crowd (mobilizing power) and the extent to which trade unions’ partnership role determines their operations.

Based on the data and processes described, we may conclude that the decreasing number of trade union members, trade unions’ weak mobilizing power and the fact that the efficiency and role of the institutional system of interest reconciliation is always dependent on the governing coalition all confirm Hungary’s position in the Central and Eastern European cluster as far as labor relations are concerned.

**III.4. The Effects of the Crisis on Social Dialogue**

The institutional system of labor relations is embedded both historically and culturally, and influences the content and process of social dialogue. The crisis, however, is an external factor which may create an opportunity for change. It had an impact on the negotiating positions of employers and employees, as well as on their dialogue, as the social and economic context in which they conduct their negotiations also changed. In this chapter, I will present the general effects of the crisis, focusing on the countries of the European Union.

In the last two decades, the institutional system of labor relations and social dialogue often provided the framework for handling the economic crisis and the recession. On a national level, several social pacts were established involving government, trade unions and employers; these generally reflected a broad agreement (Advagic, Rhodes & Visser, 2005; Fejertag & Pochet, 2000). Their purpose generally, in addition to mitigating damages, was to increase the competitiveness of the national economy. On a corporate level, the typical response was to reorganize. This was achieved in many cases through formal agreements which also focused on employment and competitiveness (Pacts for Employment and Competitiveness) (Freyssinet & Seifert, 2001; Haipeter & Lehndorff, 2009; Hyman, 2010; Sisson, Freyssinet, Kreiger, O’Kelly, Schnabel & Seifert, 1999). In general, they allowed for the freezing or reduction of wages, and flexibility in working hours and labor organization – in exchange for job security.

The global financial crisis which erupted in the second half of 2008 forced governments to minimize the social consequences of the crisis – by maintaining employment, as
much as possible, and strengthening social webs. Even in the second phase of the crisis, governments tended to focus primarily on fiscal consolidation (ILO, 2011).

Social dialogue played an important role in handling the crisis, especially the first phase of it. In several countries, “burden-sharing” agreements were put in place (Marginson, 2010, p. 22), either on a national or on a sectorial level, and either in bipartite or in tripartite formats. Based on these, employees agreed to work fewer hours in exchange for lower wages. In exchange, employers promised to resort to layoffs only as an ultimate tool (following, for instance, attempting to increase internal flexibility or provide training). Governments, for their part, would partially compensate employees for their lost wages, expand unemployment aids and assist the implementation of retraining programs.

The handling of the economic and financial crisis of 2007-2009 saw solutions similar to those implemented in preceding decades; however, there are a number of new solutions or other differences as compared to previous years’ experience (Hyman, 2010).

III.4.1. The National Level

There are several ways to categorize social pacts on the national level. The ILO (ILO, 2005) differentiates between tripartite and bipartite agreements, based on the level of participation of the government. In the case of tripartite agreements, the government is not only a part of the negotiations, the signing and the implementation of the agreement, but in some cases also participates in follow-up. Bipartite agreements are signed by employees and employers. This differentiation, however, is not entirely clear-cut as far as the crisis is concerned. In some cases, for example, the government itself was encouraging bipartite solutions, or the parties required financial or legal support from the government to implement the pact (Hyman, 2010).

Advagic et al. (2005, 5) use another way of categorization and emphasize other aspects of the agreements. In their interpretation social pacts are a type of macro-cooperation, which is generally adopted by the government and representatives of other organized interest groups. Participating parties discuss and coordinate the principles which are officially independent of one another, but in practice are interlinked and mutually connected to one another (wages, labor market and fiscal and social policy), on several levels (national, sectorial, regional and local). Based on two variables, we may
differentiate between four types of social pacts: shadow pacts, headline pacts, coordinated wage agreements and embedded pacts. Table 10 below described the two axes of this typology. On the horizontal axis are the number and types of areas covered by the agreement (one specific question or a broader set), and on the other axis is the extent to which the negotiations have become institutionalized (on what level – national, regional or local) and the extent to which the agreement is built upon mutual trust and continuous dialogue between the parties (in other words the nature of the agreement).

Table 10: Categorizing social pacts

<table>
<thead>
<tr>
<th>The number and type of issues covered</th>
<th>narrow</th>
<th>broad</th>
</tr>
</thead>
<tbody>
<tr>
<td>The nature and level of institutionalization of the agreement</td>
<td>low</td>
<td>shadow pact</td>
</tr>
<tr>
<td>high</td>
<td>wage agreement</td>
<td>neocorporatist agreement</td>
</tr>
</tbody>
</table>

Source: Advagic et al.(2005, p. 6)

Long-term social pacts, which have become institutionalized, are typical primarily of neocorporatist countries and the coordinated market economies of northern Europe, and may take one of two forms. On the one hand, we may speak of highly coordinated wage talks; on the other hand, we may speak of (neocorporatist) pacts which enjoy a high level of political commitment and trust. The other group of agreements follows a different logic. Headline pacts affect several areas at the same time, although they are primarily prescriptive and descriptive in nature. Shadow pacts, generally, see consultation and negotiation taking place independently of one another in the specific areas; their effect, however, is identical to that of headline pacts (e.g. de-inflation, fiscal consolidation and coordinated reforms). The agreements are different not only in the extent to which they become institutionalized, but also in their level of trust. Wage agreements are founded on central coordination, while embedded pacts are based on long-time commitment tied to tripartite agreements. Headline and shadow pacts, on the other hand, present far more ad-hoc and non-routine responses to, for instance, external impacts, and contain packages and conversions due to the lower level of institutionalization in the relations between the parties (Advagic, Rhodes & Visser, 2005, p. 6).
During the crisis, macro-level social dialogue – because of the position of the government – tended to be more tripartite in nature. The outcome of the negotiations, in most cases, was an ad-hoc and narrow agreement (if an agreement was even reached). In the first phase of the crisis (between the summer and fall of 2008), social partners were involved only to a limited extent in the shaping and implementation of national motivators. This changed when the crisis deepened; yet the process itself yielded only some comprehensive tripartite agreements, accompanied by serious conflicts (Rychly, 2009, p. 15-21). In the 1990s, the crisis led to tripartite agreements in several countries where there was no tradition of such agreements previously. This was not the case during the 2008-2009 crisis. The speed of the crisis may have played a role in this: if there was no institutional system in place before the crisis, it became impossible to construct and operate it later (Freyssinet, 2010).

In general, however, we may conclude that the importance of social dialogue did increase as a result of the crisis (ILO, 2009; Rychly, 2009, p. 12; Freyssinet, 2010; Glassner & Keune, 2010; EIRO, 2011). Yet as government pivots more from the revitalization of the economy towards financial consolidation, the role of social dialogue in managing the crisis is once again diminishing (Glassner & Keune, 2010; ILO, 2011).

For the reasons above, if a macro-level agreement was ultimately adopted somewhere, it was generally narrow in focus and affected only few areas. Thus, following Advagic et al. (2005), we may speak of shadow or leading pacts. In most countries, the main goal of the agreements was to loosen or introduce regulations related to shorter working hours, or to ensure government support relevant to the implementation of such regimes. The events witnessed in seven countries examined by the ILO and previously described as success stories provide good insight into the difficulties of social dialogue. In some cases, no attempt was made at reaching a tripartite agreement to manage the crisis. In other cases, negotiations ended in failure, or there were serious disagreements between participating parties (Hyman, 2010). The state, however, has emerged as a key economic player as a result of the crisis in several EU member states, something which was embodied primarily in the shaping of labor market programs and framework regulations (Glassner & Keune, 2010).
Another characteristic of the current crisis is that conflicts between trade unions have become more defined relevant to top-level social dialogue; a good example of this is the case of the Netherlands or that of Italy (Hyman, 2010).

Considering the development regimes of post-socialist countries (Bohle & Greskovits, 2012), the authors – concluding their chapter analyzing the period of the crisis – describe as a general trend the spread of market solutions lacking social protections, especially in the case of the purely neoliberal model. In Hungary, with the change of government in 2010, the role of national level interest coordination further decreased; modifications of the Labor Code – for instance the curbing of strike rights, making collective agreements more flexible (works agreements) and changing the representative nature of trade unions – were all defining factors. These latter measures have played central roles in shaping the dialogue in a number of other EU member states (Clauwqert & Schömann, 2012, p. 13, Busch et al., 2013, p. 13). In the market sector, it was predominantly collective agreements covering one employer that became widespread, and trade unions were all willing to freeze wages in the case of highly skilled workers in order to protect jobs; less skilled employees were left out of these talks. In the public sector, we saw a centralization of the talks, with direct government intervention as far as wages were concerned, which in the case of this segment meant an increase of the minimum wage (Glassner, 2013; Szabó, 2013). These measures, on the one hand, point to a shift toward the neoliberal model, indicating a new type of path dependence, while on the other hand also highlight the tensions inherent to the embedded neoliberal model. Thus, in Hungary, the transformation of the social dialogue is to be interpreted not as a direct result of the crisis, but more as a factor of political decisions taken in response to the crisis (Szabó, 2013, p. 6).

III.4.2. Corporate-Level Dialogue

Corporate-level pacts for employment and competitiveness are bipartite in nature and may be considered collective agreements dealing specifically with the relationship between employment and competitiveness, covering the areas below (Sisson, Freyssinet, Kreiger, O’Kelly, Schnabel & Seifert, 1999).
Table 11: Possible areas in corporate-level pacts for employment and competitiveness

<table>
<thead>
<tr>
<th><strong>Labor costs</strong></th>
<th><strong>Internal flexibility</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate reduction of wage level or costs and related benefits</td>
<td>Relocating the labor force</td>
</tr>
<tr>
<td>Commitment to reducing wage demands, which are (sometimes) linked to the growth of key indicators (price, productivity)</td>
<td>Introducing new ways of organizing work</td>
</tr>
<tr>
<td>Greater flexibility in managing sectorial-level agreements related to wages</td>
<td>Developing principles for training and development</td>
</tr>
<tr>
<td>Greater wage flexibility, which is made dependent on specific economic indicators (e.g. profitability)</td>
<td>Hiring practices to focus on certain groups (young people, those unemployed for a long time)</td>
</tr>
<tr>
<td>Differentiation or reduction of standards contained in collective agreements for specific groups of employees</td>
<td><strong>External flexibility</strong></td>
</tr>
<tr>
<td></td>
<td>Fixed-term contracts and determining conditions for temporary employment</td>
</tr>
<tr>
<td></td>
<td>Agreement on rules of outsourcing certain activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Flexibility of the labor force</strong></th>
<th><strong>Ensuring employment</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term or temporary shortening of the workweek, or increasing the number of working hours specified in contracts without paying overtime</td>
<td>Agreement on minimizing operations at certain sites</td>
</tr>
<tr>
<td>Differentiation of working hours for certain groups of employees</td>
<td>Avoiding mandatory layoffs</td>
</tr>
<tr>
<td>Introducing part-time work</td>
<td>Ensuring employment (for fixed term or indefinitely) for groups of employees or all employees</td>
</tr>
<tr>
<td>Introducing night or weekend shifts</td>
<td><strong>Increasing employment</strong></td>
</tr>
<tr>
<td></td>
<td>Higher employment of certain groups (e.g. interns) or of all groups (e.g. interns)</td>
</tr>
<tr>
<td></td>
<td>Increasing the number of certain positions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Connection to business strategy</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreement on investment, research and development or the production of certain goods or services at specific sites</td>
<td>Source: Sisson et.al. (1999, p. 4.)</td>
</tr>
</tbody>
</table>

According to Sisson et al. (1999), corporate-level agreements in the 1990s, on the one hand, complemented increasingly widespread national social agreements, and on the other hand owed their development to the employment principles of the European Union published in December 1997.
They apply several types of categorization in their analysis. On the one hand, they differentiate between integrative and distributive bargains (Walton & McKersie, 1965). The outcome of social dialogue is traditionally determined according to the extent to which it was able to stimulate or protect the labor market – in other words whether it represented active or passive policies. The outcome can be said to be integrative, also on the corporate level, if it is a positive sum (win-win) scenario that contains wins for each participating party. (E.g. if a company organizes a training course, not only will the employees of the company be more highly trained, but the employees’ chances of employment will also increase). This type of solution is, in every case, more long-term. The distributive outcome is a zero-sum (win-lose) scenario, and conveys more of a short-term perspective. The authors suggest that in the 1950s and the 1960s, due to rapid economic growth and a high level of employment, distributive bargains were more widespread, and negotiations primarily focused on a redistribution of wealth stemming from increased productivity. In the 1970s and the 1980s, however, agreements tended to be more integrative in nature, because the economic downturn made increasing competitiveness and flexibility a shared interest of management and employees. This process may be considered a more general effort on the part of governments, aimed at ensuring that their guiding principles are enshrined in agreements, even if the pacts contained more individual-type offers from the employer side.

The authors note that with competition between corporations intensifying, and with attempts to undercut accepted standards, these agreements may also have negative effects on the sectorial level or the level of the national economy (Sisson, Freyssinet, Kreiger, O’Kelly, Schnabel & Seifert, 1999, p. 18).

They also differentiate between defensive agreements, whose purpose is to protect workplaces, and the more positive, offensive bargains, aimed at increasing employment. In a time of crisis, it is naturally defensive bargains which come to the forefront, and these are forced rather than negotiated (Sisson, Freyssinet, Kreiger, O’Kelly, Schnabel & Seifert, 1999, p. 35). Empirical data confirm, however, that the difference lies not primarily in retaining or increasing the number of workplaces, but in where a company finds the right balance between short-term cost-cutting and retaining workplaces and between the flexibility of the company in the mid-term and adaptation (Sisson & Artiles, 2000, p. 19).
We may differentiate between three typical models, which are in practice not mutually exclusive. First, agreements which are necessary primarily to ensure the continued functioning of the main activities of the company – i.e. its survival strategy. Secondly, the model aimed primarily at rationalization (downsizing). And thirdly, the model of adaptation, which focuses on adapting to new markets and opportunities. Based on their case studies, they concluded that the sector is the most defining factor when selecting a strategy. Within a sector, the most important is the form of ownership and the nationality of the owners (Sisson & Artiles, 2000, p. 20).

Another type of categorization is the reduction of labor costs versus agreements focusing primarily on the improvement of the quality and delivery of the product to increase competitiveness. The authors add that corporate-level employment and competitiveness pacts are typical primarily of multinational corporations, which are able to manage their sites’ flexibly in terms of cost and performance indicators. This creates winners and losers on the level of the society, which faces interest representation groups with new challenges (Sisson, Freyssinet, Kreiger, O’Kelly, Schnabel & Seifert, 1999, p. 32).

Certainly, several factors influence the timing of when corporate-level deals are struck. These factors include the sector, the industry and the economic cycle, as well as the strategy followed by other actors. The tables below describe the potential rationale and counter-arguments used by management, employee interest groups and government when working towards an agreement (Sisson, Freyssinet, Kreiger, O’Kelly, Schnabel & Seifert, 1999, p. 35-36).

Table 12: The main motivators for concluding corporate-level agreements

<table>
<thead>
<tr>
<th>Management</th>
<th>Interest groups</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Reducing labor costs</td>
<td>- Retaining workplaces</td>
<td>- Increasing responsibilities of social partners in employment matters</td>
</tr>
<tr>
<td>- Increasing the flexibility of working hours and employment</td>
<td>- The survival of the company</td>
<td>- Improving micro and mezzo level dialogue</td>
</tr>
<tr>
<td>- Legitimizing change</td>
<td>- Retaining members</td>
<td>- Improving negotiating position in company decision-making</td>
</tr>
<tr>
<td>- Retaining key employees</td>
<td>- Maintaining credibility</td>
<td></td>
</tr>
<tr>
<td>- Increasing motivation and corporate identity</td>
<td>- Improving negotiating position in company decision-making</td>
<td></td>
</tr>
<tr>
<td>- Improving company image locally</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Sisson et al. (1999, p. 35)
Table 13: Motivators for avoiding corporate-level agreements

<table>
<thead>
<tr>
<th>Management</th>
<th>Interest groups</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Conviction that it is impossible to ensure reduced flexibility of the labor force</td>
<td>-Opportunity only for symbolic agreements</td>
<td>-Conviction that partners want greater say in determining economic principles</td>
</tr>
<tr>
<td>-Fear of bad messages</td>
<td>-Agreements going too far</td>
<td>-Conviction that expectations are increasing to turn market trends around</td>
</tr>
<tr>
<td>-Reduced labor market flexibility</td>
<td>-Relinquishing long-term principles</td>
<td></td>
</tr>
<tr>
<td>-Improving negotiating position of trade unions</td>
<td>-Possibilities to conclude bargains involving several employers diminishing</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sisson et al. (1999, p. 36)

In their study, Freyssinet and Seifert point to differences in corporate bargains from country to country. As a general trend, they highlight the fact that these agreements place internal and functional flexibility in the forefront over external and numerous flexibility (Freyssinet & Seifert, 2001, p. 40).

In their opinion, corporate employment and competitiveness pacts tend to follow the general trends of the decentralization of collective bargains (ibid, 2001 p. 69-75). These agreements provide an opportunity for new manifestations of various types of employee interests as well as increase responsibility. Both trends, however, result in mixed consequences. On the one hand, decentralization from the national level places coordination and the establishment of standards in the purview of the various trade unions; this may carry the risk that the agreement serves above all to legitimize the efforts of the management. Negotiations may become little more than formalities. The authors add that these agreements serve not only to complement the employment policies of the government, but may in fact substitute those, and that the government may in fact use these agreements as “alibis” in areas which it would ordinarily be able to regulate effectively itself (Freyssinet & Seifert, 2001; Hyman, 2010, p. 9).

We may also examine flexible working hours systems from the perspective of both the company as well as of employees. Employer-friendly solutions are ones which consistently make it possible to align the human capital to the needs of the business (for instance product lifecycles, consumer habits, the scheduling of work tools utilized) (Gareis & Korte, 2002). Employee-friendly solutions are practices which make it possible for employees to plan their working hours and ensure employees’ work-life
balance (Chung, 2011; Kerkhofs et al., 2010). Chung et al. (2007) in their model distinguish between employer- and employee-oriented flexibility.

Table 14: The theoretical framework of flexibility: employee- and employer-oriented solutions

<table>
<thead>
<tr>
<th>Employer-oriented flexibility</th>
<th>Employee-oriented flexibility</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Flexible working hours/assignments</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Part-time work</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Different types of retirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>Unusual working hours (night shifts, weekend shifts)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Overtime</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Fixed-term employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No</td>
<td>Approving special leave for children, for participating in education or for other reasons</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Chung et al., 2007*

In their typology, they distinguish between six types of flexibility: (1) employee-oriented high degree of flexibility, where employers offer part-time work, a system of long-term leave, flexible contracts (flexible working hours, time banks) and overtime; (2) employer-oriented high degree of flexibility, characterized by part-time work, overtime, a system of long-term leave and flexible contracts (unusual working hours assignments); (3) medium flexibility considering lifecycles, where employers only utilize systems of long-term leave and various retirements schemes; (4) daily level medium flexibility, characterized by part-time work, flexible working hours and unusual shifts; (5) companies only employing overtime; and (6) low level of flexibility, where companies do not utilize any such tools.

In the current crisis, the most widespread response seems to have been to reduce working hours (and, in some cases, temporary layoffs) (ETUI, 2010, pp: 62). In some cases, employees were offered training courses during any working hours which otherwise would have been lost, instead of resorting to layoffs; in several countries, this practice was encouraged by the experiences of state corporations (Hyman, 2010). This is confirmed by Rychly (2009), who believes that negotiations in a broader sense covered wages, reorganizations and the reduction of the labor force.

In their examination of Germany, Haipeter and Lehndorff (2009) emphasize that corporate employment and competitiveness pacts – which they term “deviant collective...
agreements” – primarily became tools of the renegotiation of standards established on the sectorial or national level. Their goal typically was, instead of changing wages or work organization, either to reduce the number of jobs locally or to delay doing so.

Glassner and Galgóczi (Glassner & Galgóczi, 2009), in a study covering ten countries, suggest that in the banking sector, there is a difference between western and eastern countries’ responses to the crisis. While in the west, the primary solution was to reduce working hours, corporations in eastern countries tended to opt to reduce a large percentage of the labor force. In many cases, employees’ hands were actually forced, to result in the reduction of the labor force, when bus routes were terminated or by offering special benefits to those opting to leave the company.

III.4.3. Conclusion, General Trends

On a national level, the Glassner and Keune (2010) study, as well as the EIRO (2011) study, identified several external and internal factors which influenced the behavior of social partners and thereby social dialogue in a particular country, even affecting the content and outcome of the dialogue during the crisis. The two external factors were economic structure on the one hand, to include the depth, breadth and timespan of the crisis, and the situation of the labor market prior to the crisis on the other hand. In terms of internal factors, two were of primary importance: the institutional system of labor relations as well as the extent to which social partners were involved in defining directions prior to the crisis. These may have had an impact on the strategies social partners chose to follow and on what tools they relied on during the crisis.

Based on the literature, the conclusions below seem to apply in a broader sense on the corporate level (Hyman, 2010, p. 10). First, that social partners utilize a creative, positive-sum strategy relatively rarely (namely one that would turn the drop in demand into an opportunity for the development of the labor force). Another related characteristic of the crisis is that the role of integrative bargains has continued to increase, placing employment in the forefront as opposed to wages (EIRO, 2011). Secondly, that there are important differences between the various countries stemming from the institutional background of labor relations, related frames and opportunities available to the actors. There is a clear difference in Europe between coordinated and more liberal market economies (Bosch 2009 p. 9-10 cited in Hyman, 2010).
former group of countries – where security of employment is high and where trade unions or works councils are strong – companies prefer internal flexibility over external flexibility. In *liberal market economies*, like Great Britain and Ireland, but also in several Eastern and Western European countries – where trade unions are more fragmented –, the costs associated with layoffs are lower. The third conclusion we may draw is that *multinational corporations* tend to reserve options or strategic decisions for themselves, which they do not disclose to employees or their interest groups. (E.g. if the costs of doing so are low, they will resort to layoffs; this trend is aided by an increase in the hiring of temporary or loan workers.)

The trends above support the *theory of path dependence* (EIRO, 2011) as laid out by March and Olsen (1989). In their opinion, changing circumstances lead the various actors to rely on tried-and-tested routine solutions to challenges, as opposed to seeking out new and innovative solutions and processes. In other words, the crisis has not created an environment where new and innovative solutions could be born; instead, it has confirmed processes underway already – including, above all, decentralization. Certainly, there were exceptions, primarily on the corporate level (EIRO, 2011).
IV. Human Resource Management and the Employee

In this chapter, I will describe the most important characteristics of human resource management, another main pillar of my research. I will cover how the changes in the institutional system of social dialogue affect workplace practices, and in a separate sub-chapter, I will analyze the institutions of participation and the approach of management to these.

The **scientific areas below serve as the foundations for the HR profession** (Szőts-Kováts, 2006). Scientific management has contributed three main concepts to the development of the field (the selection of individuals physically and mentally fit for the job, the importance of training, and a salary tied to daily premiums); all of these place the efficiency considerations of employment in the forefront. “Psychotechnics,” associated with Hugo Münsterberg, contributed new considerations for the selection of employees using psychology. The Human Relations Movement emphasized the effects of leadership style and wage systems, and called attention to the significance of working groups. It was, for instance, as a result of this, that trade unions initiated the humanization of workplaces. In terms of behavioral sciences: organizational psychology contributed to the evolution of the field of human resources by studying workplace behavior; social psychology analyzed the effects of individuals on one another; organizational theories dealt with questions related to the existence and operation of organizations; organizational behavior looked at the effects of individuals, groups and the organizational structure on the individual; sociology, primarily, emphasized society, social institutions and social relationships (Bakacsi G., Bokor, Császár, Gelei, Kováts & Takács, 1996; Ulrich, 1997; Kieser, Organizational Theories, 1995). These fields also left a significant mark on the development of participation.

IV.1. Development of the Field of Human Resource Management

The **literature contains several approaches to breaking down the history of the development** of human resource management as a scientific area; the following may be the most prevalent approach: personnel administration, personnel management, human
resource management and strategic human resource management (Bakácsi G., Bokor, Császár, Gelei, Kováts & Takács, 1999) (Szöts-Kováts K., 2006). While these phases may not be clear-cut, there are differences between the various phases, and we may also observe an evolving trend.

In the phase of personnel management, this corporate function is an activity focusing solely on the employee; line managers manage subordinates in a reactive fashion, focusing only on the short term (Legge, 2005). In the phase of human resource management, we see a proactive approach emerging: the labor force is considered not just a cost factor, but also a company resource which may contribute to the increase of efficiency and processes creating added value (Bokor A., Szöts-Kováts, Csillag, Bácsi & Szilas, 2007). Psychological contracts and the commitment of the employee become important, along with learning and development on the job. At the same time, the focus is on the individual, the motives of the individual and the harmonization of personal and company goals; the collective aspects of labor relations fade into the background (Bratton & Gold, 2007; Csillag S., 2012). The shaping of the corporate culture, as a critical managerial task, emerges and the focus is turned to the impact of human resource management on this task (Legge, 2005, p. 113).

It is important to note that it is difficult to separate, on the level of both theory and practice, pure models of personnel management and human resource management. At both stages, we encounter normative models whose purpose is to utilize the employee, considered a resource, to the optimum; we also encounter descriptive-functional models, whose purpose is to regulate employee relations; and we encounter critical-evaluative models which emphasize the effects on all stakeholders, paying special attention to fairness (Legge, 2005).

In the phase of strategic human resource management, employees are seen as the fundamental source of the company’s competitive advantage; human resources systems and practices are seen as contributors to the company’s performance (Guest, 2007). The representative of this corporate function becomes a member of the company’s senior leadership, thus also becoming a part of its strategic decision-making (Bokor A., Szöts-Kováts, Csillag, Bácsi & Szilas, 2007).

Certainly, the current theory of human resource management and strategic human resource management is far from consistent. In fact, there are several definitions of human resource management. Some of the definitions focus on the activity itself, and
are related to the operation of various sub-systems (e.g. recruitment and selection, or training and development etc.) (Legge, 2005). Other definitions represent more of a perspective or an approach by which the various activities may be described (Pinnington et al. 2007 cited in Csillag 2012). Another dimension where the various definitions differ is whether they focus on the outcome – the efficiency and results of human resource management – or on the process through which individual and organizational goals may be successfully linked (Bratton & Gold, 2007).

Human resource management as a practical field shows tremendous diversity according to industry, company, level of hierarchy and culture. Channeling employee opinions has long been an important consideration when introducing or operating human resource processes.

Boxall et al. (2010) utilized the expression analytic human resource management to understand what actions managers take, how and why they do so, and who the winners of such activities may be. This approach, instead of describing processes, focuses on research and explanation, and does not strive to collect and describe best practices. The latter does not take into consideration the fact that every practice in human resource management is context and culture-dependent, and does not devote enough attention to the differing interests of management and employees (Legge, 1978 cited in Boxall & Purcell, 2010).

Analytic human resource management is thus based upon three main pillars. One main driver is strategic human resource management – more specifically, a resource-based approach by the companies. Strategic human resource management claims that employees of the organization may be defining sources of the fundamental competitiveness of the company. It is important to examine, from this perspective, how human resource processes create valuable capabilities, which are difficult to replicate.

The second pillar is based on the observation that the attitude of line managers and employees plays an important role in the operation of the various practices. It is necessary thus to analyze how various human resources principles and practices influence the attitude and the behavior of employees. These include issues such as confidence in the management, commitment or satisfaction with one’s job. This leads us to the third fundamental pillar: mutuality. What this means is that – for the sake of long-term sustainability – the outcome of the various processes is to be examined not only
from the perspective of the owners or the management, but also from the perspective of the employee (Boxall & Purcell, 2010, p. 30-31).

Human resource role models describe the expectations various actors within the organization have towards HR. When defining these roles, however, it is important to highlight the basis for these definitions: is the emphasis on actual activities and practices; time spent on various activities; metaphors related to the activities; or on added value (Bokor, 2005).

Torrington and Hall (1998 cited in Csillag, 2012) identified six typical roles related to the development of these activities, adapted to the specific economic and social environment: social reformer; welfare officer; humane administrator; consensus-builder (focus on ensuring peace at work and on employee relations); organizational individual (focus on organizational performance and efficiency); labor analyst (focus on efficiency and on bureaucratic control).

One of the most frequently used approaches is that of Ulrich (Ulrich, 1997), whose role matrix sets out HR roles according to two dimensions: either operational or strategic orientation, or according to focus on the process or the individual. Certainly, this model seeks to examine how human resource management representatives may become defining actors; from the perspective of this research, however, I would emphasize that it does matter which role is in the forefront when managing a crisis. This approach identifies four roles: that of the administrative expert, the employee champion, the change agent and the strategic partner.

The administrative expert (operative orientation, focus on the process) is responsible for operating the organizational infrastructure (typically the various HR systems), and serves operative needs directed at HR. In the employee champion role (operational orientation, focus on the individual), the task is to manage the psychological contract in place between the employee and the company, and to pay attention to employees. In this role, HR deals with the daily problems and needs of the members of the organization, in order to increase their commitment and develop their skills. The establishment and operation of the participatory institutional system, to be covered below, also belongs here. In the change-management role (strategic orientation, focus on the individual), human resource managers support the creation of an ability on the part of the company to change, so that organizational competitiveness may be sustained. In the role of strategic partner (strategic orientation, focus on the process), human resource
management focuses on harmonizing its own strategies and practices with the business strategy of the company (Ulrich, 1997; Bokor A., Szőts-Kováts, Csillag, Bácsi & Szilas, 2007). Certainly, human resource management may take on several roles within one organization, and any of the roles above can become a priority during the management of a crisis. In my dissertation, it is primarily the interest reconciliation role that may be best tied to the content and process of participation and social dialogue; managing the crisis, however, may invoke any of the other roles as well.

IV.2. The Special Situation of Human Resource Management in Hungary; Varieties of Human Resource Management

The practice and meaning of human resource management changes over time and in space (Bowen D. G., 2002). A country’s culture and set of values also influences it (Hofstede, 2001). The international literature of human resource management generally describes three sub-fields (De Cieri & Dowling, 1999): human resource management at multinational corporations, which focuses on the practices of international corporations; cross-cultural management, which examines the effect of cultures on the practice of management; and comparative human resource management, which compares various systems and practices on the level of different organizations and countries.

Each of these approaches deals with the question of convergence or divergence; in other words, with how various countries’ practices become similar or dissimilar in the field of human resource management (Karoliny, 2009). Representatives of the approach related to multinational corporations argue, on the one hand, that market, technological and management forces drive a multinational organization to apply their best practices in each country (Boyer, 2007). Those subscribing to the institutionalist approach emphasize institutional complexity when casting their ballot for divergence (Hollingsworth and Boyer, 1997 cited in Karoliny, 2009). If we follow the position of Hall and Soskice (Hall & Soskice, 2001), we see both divergence as well as convergence playing out.

According to the literature of the field of comparative human resources, while there are major differences in HR practices among the various countries, there is a sort of
convergence in terms of human resource models and practices applied (Karoliny, 2009).

Asian human resource practices, for instance, are characterized by different cultural roots and religious divisions (Poór J., 2006). Until the 1990s, Japanese human resource management was characterized by an organizational culture built on cooperation, group decision-making, organization according to seniority, the model of life-long employment and a high level of employee loyalty. Recent years, however, have seen traditional Japanese corporate culture change, with a greater focus on organizational flexibility and the introduction of performance-oriented motivation systems, and lower significance attached to life-long employment.

Researchers of comparative human resource management have established several groupings and clusters, considering the practices of the various countries and focusing on different factors. Pieper (1990), examining differences in state regulations, differentiated between the United States and Western Europe; Albert (1991, cited in Karoliny, 2009) returned to the two fundamental types of capitalism (Anglo-Saxon and Rheine-region), examining the role of the state in the economy. Rohnen and Shenkar (1985), based on Hofstede (1980), defined eight country-clusters. Western-Europe is characterized by historical, national and cultural variety. Poór (2006) identified five groups of factors (comparing them to the American model) which affect the introduction and operation of human resource management practices: a higher share of state ownership; a more powerful presence of trade unions and interest reconciliation, and the regulation of the labor market; EU rule of law (and variety in national regulations); more limited managerial freedom; less individualist national cultures. As an important trend, Poór highlighted the convergence of the various practices, which the author ascribes primarily to EU framework regulations and the significant presence of multinational corporations (Poór J., 2006).

Budhwar and Sparrow (2002), in their integrative model, argue that based on aspects of national culture, national factors (institutions, sector and dynamic business environment), organizational characteristics (age, size, ownership structure and life cycle), organizational strategies and human resource strategies, human resource management practices are dependent on their context.
Human resource management in Central and Eastern Europe, to include Hungary, continues to be characterized by the marks of socialist economic and social order, wherein personnel management questions were strictly overseen by the party and state leadership, and where in addition to work administration, the main task of personnel work was to raise a segment of society appropriate in terms of ideology and to maintain the appropriate organizational atmosphere (Csillag 2012, Karoliny, Farkas & Poór, 2009). Following the system change, international corporations brought with them their own human resource practices. Karoliny et al. (2000) examined human resource management in Hungary, and found that while the practices of global and international organizations active in the country tend to keep pace with international trends, Hungarian companies seem to lag behind considerably in this respect (Karoliny, Poór & Spisák, 2000; Karoliny, Farkas, Poór & László, 2003). This is yet another area where Hungary is a dualist country.

Citing the latest research, Karoliny (2009) points out that an examination of human resource management practices in the Central and Eastern European region reveals that certain similarities between countries of the region differ from Western European norms and more closely resemble U.S. models. These include the tradition of collectivism, and the question of the legitimacy of trade unions. Based upon empirical results, Karoliny concludes that the European Union includes a separate cluster that is, in terms of HR, different from the group of western countries (Poór, Karoliny, Alas & Vatchkova, 2011), and that is the result of the meeting of old and new institutional systems, and which may be related to the forks in the road to the development of capitalism that are often encountered (Makó & Illéssy, 2007).

Of the results of the empirical research, in terms of the subject of this dissertation, the following aspects of human resource management practices in Hungary are key (Karoliny, 2009; Poór, Karoliny, Alas & Vatchkova, 2011; Karoliny, Farkas & Poór, 2009). Like in other Central and Eastern European states, the personnel ratio is low (under 40%); the involvement of external HR providers is lower than the entire sample; the number of companies not employing organized employees (trade union members) is high; membership in existing trade unions is low; there is generally a top-down approach in internal communication strategies, and only a few of these are implemented by trade union representatives.
According to the Human Mirror study (Bokor A., Bíró, Kováts, Takács & Toarniczky, 2005; Bokor A., Bíró, Takács, Kováts & Toarniczky, 2005), the following conclusions may be made regarding Ulrich’s (1997) interest reconciliation role, prior to the crisis. The role is difficult for human resource management representatives to grasp; they have a difficult time interpreting the demands directed at them, and these demands may be contradictory (employee and management side). Professionals tend to deal with these issues in two ways: some reject this role, while others identify with it, ensure continuous personal accessibility and participate actively in resolving various conflicts.


Human resource management, as a scientific field, has been characterized since its inception by two approaches with different goals. One such approach emphasizes control and direction, while the other underscores caring and development (Bratton & Gold, 2007). Redman and Wilkinson (2009), regarding the management of employee relations, differentiates according to the above approaches between a paternalistic position and a viewpoint based on market individualism. In the paternalistic position, the employee is in a subordinated position, where the owners provide social benefits and some level of protection to them. Market individualism on the other hand places individual liberties and market-coordinating mechanisms in the forefront, and views employee relations as individual economic contracts.

Legge (1999), in connection with this, differentiates between the market and the community rhetoric of organizations. In the market rhetoric of organizations, the employee is both an internal and an external consumer, a good or a resource. The employer, so as to win over external consumers, is essentially driving internal consumers toward cooperation by empowering employees and by listening to employees (participation). The best illustration of how they are being treated as goods is insourcing and outsourcing: i.e. in this perspective, employees are essentially a form of input, and their utilization is a factor of economic efficiency and efficacy. Treating employees as a resource may also be a source of competitive advantage: thus, developing and appreciating employees is more important than minimizing costs. The goal is to establish mutual dedication through various human resource management practices. In the community rhetoric, as opposed to the market rhetoric of organizations, the background is provided not by the individualist economic rationality of the
employee built on free decisions, but the notion that a person is a person because they belong to a community (in this case, the particular organization). In community rhetoric, employees are considered family members or team members; in this approach, however, independence and free will – which are fundamentals of human existence – are called into question. Both are unitarist approaches, since they both assume common goals and mutual loyalty and support; at the same time, the “organization-as-a-family” notion is a cornerstone of paternalist employee relations. In this approach, everyone contributes a different added value to the organization, but in a dispute, it is clearly the goals of the organization which dominate. This ideal, however, is threatened by two factors. First, the expression “family” does not necessarily carry positive meaning to employees today. Secondly, the approach of the “organization-as-a-family” used to include a kind of tolerance (including differences in individual performance) in exchange for loyalty and the right attitude. Today, in practice, this is no longer sufficient for companies. The notion of belonging to a team is, however, in line with both expectations: dedication and a high level of performance.

These examples of different rhetoric and images are present in the various approaches to, and the management of, social dialogue.

Using Storey’s (1987) base terminology, we may speak of hard and soft versions of human resource management (Csillag, 2012).

*Hard human resource management* is a performance-oriented approach, where the goal of HR is to operate systems and functions which help the company realize its business strategy. In this perspective, employees are just one type of production tools, and the employee relationship can be considered a type of economic transaction. Thus, measurability, predictability and control are important. The goal of human resource management systems is to ensure the appropriate quantity of appropriately qualified employees in the most cost-efficient way possible, and matching the needs of the organization (Legge, 2005). The focus is on the strategic alignment of human resource management, rationality, control and profitability (Pinnington et al., 2007: 2; Szőts-Kováts, 2006). Of the defining hard models, we may mention the strategic alignment model of the Michigan school created by Fombrun et al. (Fombrun et al. 1984), and the New York model of Schuler and Jackson (Legge, 2005; Bratton and Gold, 2007 cited in Csillag 2012).
In the soft approach, while meeting business targets is important, the employee is considered not just a cost factor, but is also the main source of competitive advantage for the company. Employee dedication and loyalty are important, and HR systems and processes serve to establish and sustain these. Individual-level development and providing appropriate working conditions come to the forefront, and on the level of the organization, advancing the company culture is also a priority (Legge, 2005). Of the soft models, the literature highlights Harvard’s multiple stakeholder model (Beer et al., 1985) and partially built on that, Warwick’s model (Hendry and Pettigrew, 1990; Bratton and Gold, 2007 cited in Csillag 2012).

Companies generally employ the two approaches in an integrated manner, focusing on different groups of employees in specific faces, and highlighting various hard and soft tools as necessary. Boxall and Purcell’s (Boxall & Purcell, 2008) strategic human resource management model clearly emphasizes a joint utilization of hard and soft approaches. In addition to primary company objectives (viability and sustainable development), they also determine secondary objectives (work productivity, organizational flexibility and social legitimacy), which they believe may only be realized by applying the two approaches together, concurrently. The evolution of the field of HR is greatly influenced by the following factors: environmental factors specific to each country (demographic characteristics and social values), the evolution of competitive strategy and advancement in the scientific field of HR.


By factors such as a drop in the significance of trade unions, differences between the various employment systems grow wider – i.e. there is increasing diversity among organizations in terms of working conditions, in terms of wages and in terms of the human resource management practices applied. Despite lacking a specific indicator to measure the negotiating power of trade unions, several factors suggest that their significance has dropped even in countries which did not see a significant drop in trade union membership numbers (Katz H., 2006; Katz H. C., 1993). Each author identifies different factors when searching for the reasons behind these trends. Some point to increasing international competition and globalization (Troy, 1990 cited in Katz, 2006) as one of the reasons behind a drop in trade union
membership – in other words that trade unions have been unable to keep up with the production and product market strategies of multinational corporations and their regional spread; another factor cited is that management communication strategies have changed, and the individual management of employees has become more important (Purcell, 1995 cited in Katz, 2006). The drop in trade union membership has affected the relationship of employees and employers in several ways. The evolution of working conditions and wages, as well as the management of employee complaints, shows an increasing gap, and not just between organizations which have a trade union, but also between organizations which do not.

An opposing trend is that differences between countries are decreasing because processes and outcomes of labor relations are becoming increasingly similar (Katz H., 2006). The literature provides at least two explanations for this trend. On the one hand, some point to the proliferation of Japanese-style labor relations, which follow the proliferation of Japanese work organization methods, since the two together may ensure greater competitiveness for each organization. A consequence of this is a greater focus on organization-level labor relations (Katz H. C., 1993), a system of decentralized wage bargains, the spread of group work and life-long employment for key employees (MacDuffie 1996; Womack, Jones, Roos 1990 cited in Katz, 2006, p. 266). On the other hand, another approach emphasizes the flexible labor market, and the fact that the best response to it is the rapid transformation of management practices, including the introduction of American-type lean management, which is the result of convergence and adaptation (Kerr et al. 1964 cited in Katz, 2006, p. 267).

Several other trends may be observed in other countries (e.g. Italy, Ireland or Germany): the revival of tripartite dialogue and agreement, or regional agreements by multinational corporations which cover not only labor relations, but also the entire field of human resource management.

As a result, and in view of the field of identification and variety, Katz and Darbishire (2000 cited in Katz, 2006) identify four patterns of employment relations. They claim that the various practices constitute groups which may only reach their goal if they are introduced together.
Table 15: Types of workplace practices

<table>
<thead>
<tr>
<th>Type</th>
<th>Low wages</th>
<th>HR management</th>
<th>Japanese-style</th>
<th>Group-based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workplace practices</td>
<td>Managerial decision, informal processes</td>
<td>Organizational culture and extensive communication</td>
<td>Standardized processes</td>
<td>Joint decisions</td>
</tr>
<tr>
<td>Hierarchical labor relations</td>
<td>Managed groups</td>
<td>Problem-solving groups</td>
<td></td>
<td>Semi-autonomous working groups</td>
</tr>
<tr>
<td>Low wages, piece wages</td>
<td>Above-average wages with bonuses</td>
<td>High wages based on seniority and performance</td>
<td></td>
<td>High wages based on knowledge</td>
</tr>
<tr>
<td>High returns</td>
<td>Individual career planning</td>
<td>Stable employment</td>
<td></td>
<td>Career paths</td>
</tr>
<tr>
<td>Strong resistance to trade unions</td>
<td>Substituting for trade unions</td>
<td>Company trade unions</td>
<td></td>
<td>Inclusion of trade unions and employees</td>
</tr>
</tbody>
</table>


The pattern typified by low wages includes practices which place power in the hands of the management. The HRM approach emphasizes individual performance and motivation, and providing career paths. This perspective, however, does not necessarily have to exclude trade unions: it may also serve to complement their functions. The difference between the pattern built on a Japanese approach and the approach emphasizing group work lies in greater autonomy and responsibility and on different interpretations of the role of the management.

Certainly, the institutional systems of the various countries may have an effect on the patterns outlined above and on how they operate in practice; this may lead to differences within a country, a sector or even an organization.
V. Participation, Involvement and Voice

In this chapter, I will describe the process and history of participation, and will explain the relationship of employees and management to these institutions.

V.1. The Concept and History of Participation

The concepts of participation, involvement and voice are used in the literature very flexibly and to cover a number of meanings. The definitions may be either very broad and inclusive, or may be very narrow in scope. Gallie et al. (Gallie, Felstead & Green, 2001, p. 7) point out that the literature of participation rarely differentiates between the different types of involvement as far as decision-making is concerned. As a result, it is difficult to produce precise comparisons either in time or even if looking at just one organization; generalizations also contain certain risks (Marchington & Wilkinson, 2005). Studies underscore the contextual meaning of participation, thus focusing on corporative case studies.

We may use participation as an umbrella concept, which includes everything else (Wilkinson & Dundon, 2010), or we may describe two main philosophies within this (Wilkinson, 1998 cited in Wilkinson & Dundon, 2010, p. 169). One of these is industrial democracy, which is connected to industrial bourgeoisie, and which considers participation a fundamental right of employees that increases their say in decision-making by the management at various organizations. Today, this approach is connected primarily to the company stakeholder perspective. The other approach is related to the model of economic efficiency, and emphasizes that participation is a better decision-making model and leads to greater dedication (Boxall & Purcell, 2003).

According to Strauss (2006, 779), who uses the definition proposed by Heller et al. (Heller et al. 1998, p. 15), any process may be considered participation if it provides employees with a say in their work or in their working conditions. Strauss emphasizes the importance of active influence, setting it apart from passive involvement; one example of the latter may be financial participation.

Interest in participation, both from a theoretical as well as from a practical perspective, may be said to be cyclical (Ramsey, 1977), which is characterized by waves
Marchington et al. (1993): moving from the appearance of the various types to their proliferation, and then from a drop in interest to the appearance of new types (Strauss, 2006, p. 780).

Strauss (2006) describes three main waves. The roots of participation in the modern age may be traced to the Human Relations School, and back to the 1940s (Strauss, 2006, p. 780). This was the first time that managers began recognizing the importance of paying attention to employees and their emotions. In this era, however, the number of institutions of formal participation was still low compared to later periods.

In the 1960s, jobs were enriched and employee motivation became important, all with the goal of improving the quality of working life. In practice, these processes were connected more to employee motivation and less to participation in decision-making. At the same time, another trend could also be observed, dealing with the balancing of power and the spread of rights connected to participation in the trade unions (Strauss, 2006). This latter may be connected to the appearance of co-determination in Germany (Wilkinson & Dundon, 2010).

From the 1980s to the 1990s, the context of participation changed, especially in Great Britain and in the United States. This transformation played out not in the institutional system of labor relations, but had a strong business aspect to it. The main focus was turned to direct communication with the individual employee, reducing the influence of trade unions. The rationale of the management was that this is how various companies may become competitive, especially by relying on Japanese approaches to work organization; this turned attention to TQM or to the Six Sigma systems (Wilkinson & Dundon, 2010, p. 170).

The current business narrative emphasizes flexible, innovative and responsive organizations over economies of scale and mass production (Piore & Sabel, 1983). The knowledge economy also provided renewed impetus for involving employees in decision-making (Scarborough, 2003 cited in Wilkinson & Dundon, 2010, p. 170). As Strauss (2006, 778) says: the involvement of employees creates a win-win situation, since it fulfills employee needs and also helps achieve company goals. Certainly, this is not always implemented in practice, and there are certain perspectives which consider this trend a sign of increasing employee exploitation.

It must be emphasized, however, that various participatory institutions may have different lifecycles even within one organization, suggesting that it is not only general trends, but also local contexts which must be considered when examining them.
If we compare the evolution of technological and economic paradigms with the history of participation, we may conclude that the defining principles and practices of the various paradigms are related to the participatory approaches applied, and the participation of employees becomes more and more significant.

V.2. Institutions (Types), Depths and Levels of Participation

In order to understand the goals and meaning of the various institutions, it is important to examine the depths and levels of participation – to determine what areas it covers in terms of scope and what forms it takes.

There are a number of types of participation and voice. We may, on the one hand, focus on power sharing, examples of which are collective negotiations; on the other hand, we may focus on ownership, examples of which are stock options; or we may focus on influence over work processes.

Thus, institutions of employee participation provide employees with an opportunity to have a say in the evolution of work processes and of employment and working conditions; they may also acquire oversight of these and may participate in organizational or possibly even management decisions (Makó & Simonyi, 1995; Héthy, 1994). These institutions may take the following forms:

- **direct**, workshop-level participation (e.g. autonomous working groups, quality circles, or consultative or decision-making processes which provide an avenue to express ideas),

- **indirect-representative**, i.e. participation in company decision-making processes through representatives (delegates to supervisory boards, works councils, public employee councils),

- **financial-ownership** participation (employee stocks and a share in the profit).

In this case, employees are also owners, and may thus use this role to influence management decisions, work processes, etc.

Direct, workshop-level participation is also referred to as involvement, and we may break it down into two types:

1. tools which are focused on employee motivation and effort – i.e. on interesting work and a better understanding of the processes, and
2. tools which realize these by setting them inside a structure, i.e. through cross-training or delegating.

In these cases, participation is neither a goal nor a tool, but is more of a leadership or management philosophy, which promotes employee participation in decisions and development, and in general in the success of the company. The involvement of employees may reduce the role of interest groups by dealing with employees on an individual or group level.

According to the level of participation, we may discuss group, department, site or organizational levels. For instance, employee stock options foster the identification of the individual with the company, while collective agreements may be considered a type of indirect collective institution.

Regarding the depth of participation, we may talk about a significant say in management decisions, or – at the other extreme – merely access to information. In terms of its extent, we may speak of decisions of lesser significance but possibly also of corporate-level investment decisions.

The sharing of information is, itself, a weak form of participation, even though in terms of intensity and frequency we might encounter differences from company to company. This form is built generally not on representative institutions or on trade unions, but touches employees directly. Bottom-up problem-solving techniques go further than unidirectional communication, and attempt to channel employee ideas in each area (e.g. in the case of autonomous working groups). In the Anglo-Saxon countries, the type of consultation that is most widespread is one built on sharing information, thereby posing no threat to the interests of the management (Hall et al., 2007 cited in Boxall et al. 2010).

According to another categorization, participatory mandates (Makó & Simonyi, 1995), regardless of the specific methods, may include the following:

- those covering the collection of information, in which case employees are informed orally or in writing about the contents, reasons and consequences of decisions, but are not involved in making those decisions. While information is only provided by one side, if it is done orally, there is at least a theoretical possibility of communication.

- the provision of an opinion, in which case the management retains its decision-making authority, but solicits and listens to the opinion of employees. Providing an opinion is thus a type of single-phase
communication (a question is asked and an answer is received), and provides an opportunity to influence the proposed measure.

- *consultative*, in which case the management is required to consult the stakeholders. This means that consultation is actually a form of ongoing dialogue: it may be considered an iterative, multi-phase, process to provide opinions. The decision, however, continues to rest with the management.
- *co-decisions*, where the management may only act if there is agreement.

It is important to emphasize that representation and participation both operate with dynamic and moveable boundaries, which are impacted by each new situation such as the crisis (Freeman et al., 2007).

**V.3. Voice or Loyalty? – The Side of the Employee**

Whether an employee has a voice in one organization, but an employee in another organization does not have a voice and remains silent is a question receiving more and more attention. Several articles have discussed why and how members of an organization decide when to get involved in the operation of a company, and when to remain silent. *Macro-oriented studies* generally measure voice or its efficiency according to the relevant mechanisms available within the particular organization, such as trade unions, consultative committees, etc. (Bryson, Gomez, Kretschmer & Willman, 2007) (Charlwood, 2006). *Micro-level studies*, on the other hand, emphasize the level of institutionalization and scope of effect of these institutions, and the issues they deal with.

The concept of the voice of employees is significantly structured around Hirschman’s (1970) theory, which among other things, examined the question of why the consumers of a specific company’s product fail to switch to the product of another company in case of dissatisfaction, as the theory of neoclassical economy would suppose (which is founded on a perfect labor and product market and full access to information). Hirschman found that dissatisfied consumers do not always follow the strategy of exiting, but are more likely to fight on and make their voice be heard. These consumers are far more loyal than their counterparts choosing another company’s products. This
One important approach which deals with the question of exit or voice is based on the theory of transaction costs. Hirschman’s (1970) theory examining consumers’ collective behavior was applied by Freeman and Medoff (1984) to trade unions, who concluded that voice as a form of trade union activity may be a win for the employer, even despite the efforts and costs associated with monopolizing efforts by trade unions. Employers have access to several mechanisms, regardless of the presence of a trade union, each of which allow them to optimize their control of employees.

Freeman and Medoff (1984) tied voice to the presence of a trade union, while Kaufman and Levine (2000 cited in Willman, Bryson & Gomez, 2006 p. 285) examined organizations with no trade union presence, departing from the theory of transaction costs. According to Marsden (2000, cited in Willman, Bryson & Gomez, 2006 p. 285), employee participation reduces transaction costs for a number of reasons: first, it improves coordination by improving the flow of information; secondly, by building trust it may increase motivation; and thirdly, it may reduce the risks associated with opportunistic behavior. Other authors, over and beyond the increase of motivation, emphasize dedication and teamwork as a factor at play. The literature of human resource management emphasizes the importance of direct, two-way communications. Naturally, mechanisms of voice and the operation of participatory systems have several costs. Kaufman and Levine (2000) mention primarily training courses, slower decision-making and the increased significance of the employees’ negotiating positions.

On the whole, we may conclude that according to the transaction-cost-based approach, organizations where the potential benefit outweighs the potential costs for both parties – employees and employers – are likely to see some kind of participatory mechanism. In cases where sustaining these brings no net benefit to one of the parties, it is the decision of the employer that will determine the situation. In other words, there are several factors which determine how much of a say employees have in the operations of a company, and how much they dare or wish to get involved; the attitude of the employer may be definitive, however (Willman, Bryson & Gomez, 2006).

Studies which, in addition to voice and exit, also examined loyalty, concluded that loyalty is inversely proportional to voice (Boroff and Lewin, 1997 cited in Lewin, 2010,
The loyalty of employees is inversely proportional to exiting. Thus, we may conclude that both in organizations with a trade union as well as in organizations without a trade union, dis_satisfied employees are likely to choose to suffer in silence over exit or voice (Rusbelt et al, 1988 cited in Lewin, 2010).

According to other theories, not based on transaction costs, the employee’s reason for staying silent may be either individual or organization-level in nature: it could be influenced by a communicative decision (Van Dyne et al. 2003), the attitude of the senior management (Morrison and Milliken 2000), the organizational culture (Huang et al., 2005) or personal character traits (Premeaux and Bedeian, 2003) (Donaghey, Cullinane, Dundon & Wilkinson, 2011). Emphasizing the role of the dominant coalition (Donaghey, Cullinane, Dundon & Wilkinson, 2011) is another approach, according to which the management, by operating such mechanisms of voice, wishes to avoid other, stronger forms of employee representations. Their goal is to reduce the strength or influence of the trade union, or to limit participatory mandates to the field of business efficiency.

The dynamic approach to silence combines the perspectives above – it considers both the position of employees as well as the position of employers (Donaghey, Cullinane, Dundon & Wilkinson, 2011, p. 63). The boundary of control is not static, but rather situation-dependent: it is determined by the attitude of the management and their behavior as well as by the passivity and the contributions of employees. Silence can be either beneficial or damaging for both sides. If silence is useful for the employer (i.e. if they only allow mechanisms of voice to operate in a limited manner), the employee has no means to express their opinion. If, however, silence is beneficial for the employee (i.e. they do not participate in dialogue because of lost confidence or for any other reason), the management is deprived of information when making its decisions. In my view, this approach is closely linked (Walton & McKersie, 1965) to the distinction between distributive and integrative negotiations. While the distributive approach signifies a zero-sum game (where if either side wins – in this case the employee or the employer – the other side loses), the integrative approach places the emphasis on positive-sum games, highlighting negotiations that result in a win for both sides.

Several studies have been published attempting to examine the effects of human resource management practices – including participation and mechanisms of voice –
from the perspective of organizational performance or employee welfare. According to a more recent study (Dietz et al., 2009 cited in Wilkinson & Dundon, 2010), whether employees find the introduction of direct participation techniques positive is greatly dependent on their trust in the management and in the systems operated by the management.

V.4. Employer Goals and Trends During Participation

The theory of strategic choice (Kochan, Katz & McKersie, 1986) states that the extent of organizational change draws into question the traditional, institutionalized system of decisions by the management. According to the authors, management has become the main driver of organizational change, over the labor and product market. Three main elements of the theory of strategic choice are related to participation. First, the attitude of the management and decision-makers to these institutions. Secondly, the effects of these ideologies and perspectives on the types and nature of decisions, on the level of strategy, function and the individual. And thirdly, the effect of decisions on individual and company performance. This process is illustrated in the diagram below.

Fig. 3: Strategic choice – a simplified model

<table>
<thead>
<tr>
<th>Defining ideology</th>
<th>Actions</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor unions</td>
<td>Strategic level</td>
<td>Employee attitudes</td>
</tr>
<tr>
<td>Participation</td>
<td>Functional level</td>
<td>Productivity</td>
</tr>
<tr>
<td>Rights</td>
<td>Workplace practices</td>
<td>Quality requirements</td>
</tr>
<tr>
<td>Type of inclusion</td>
<td></td>
<td>Absences</td>
</tr>
</tbody>
</table>


Most strategic decisions follow a top-down approach as far as decision-making is concerned, although this is of course a great simplification. The regulatory environment, leadership styles and even the national culture may influence this process.

Participation has three important roles. First: management gurus like to highlight the fact – even though it may seem trivial today – that successful organizations are ones which involve, empower and listen. This makes it possible for the labor force to be a
source of innovation and knowledge. Secondly, institutions of participation make employees feel like they belong somewhere. The third role is the question of legitimacy. Decision-making mechanisms of the management demand a type of openness and fairness, which may also be reached through these institutions.

The figure below depicts the goals described above, which include both economic as well as social-political goals.

Table 16: Goals of human resource management

<table>
<thead>
<tr>
<th></th>
<th>Economic</th>
<th>Social-political</th>
</tr>
</thead>
<tbody>
<tr>
<td>Static</td>
<td>Cost-efficiency</td>
<td>Legitimacy</td>
</tr>
<tr>
<td>Dynamic</td>
<td>Flexibility</td>
<td>Sustainable competitive advantage</td>
</tr>
</tbody>
</table>

*Source: Boxall, Purcell (2010, p. 41)*

The fundamental goal of employers is *cost-efficiency*, the actual achievement of which is of course dependent on the technological and economic structure of the particular industry. The cost-efficient management of labor may help in the short term in the case of economic crises or threats to the stability of the industry; in the longer term, however, the *flexibility of the organization* also becomes an important factor. If this is important to the company management, involvement is more likely to become institutionalized to a greater extent, and participation is likely to become multi-level within the organization, but only if employees are treated as strategic resources. (This latter perspective is less typical in liberal market economies.)

The attitude of the management to the question of participation is driven, however, not exclusively by economic considerations. The *goal of legitimacy* is defining primarily from the perspective of the country and the region. This covers adherence to the law as well as questions of ethics. There are great differences in this respect in terms of participation between Anglo-Saxon liberal market economies and Western European nations typified by social partnerships, where trade union power is far more institutionalized (Marchington, Employee Voice Systems, 2007). *Efforts at autonomy* by the management have also been clear in several areas. In terms of participatory institutions, we may highlight the preferential treatment of fora and institutions which
manage to increase their productivity without reducing the maneuvering room and
decision-making purview of the management.

From the side of the management, the decision can be described as a *make or buy
dilemma* (to buy from an outside source, i.e. the trade union, or to make, i.e. through
collective representation institutions functioning not as a trade union) (Willman, Bryson
& Gomez, 2003) (Gollan, 2010). Referring to the theory of transaction costs, the
decision itself is a subject of several factors. It depends on the specificity of the tool
(e.g. on whether the individual is a key employee), the frequency and uncertainty of the
interaction (permanent or temporary institution) and on the structure of government (the
efficiency and value of representation). According to this theory, the more unpredictable
the interaction is, or the more frequently it occurs in the longer term, the more
worthwhile it is to develop a mechanism which fosters employee representation.
Naturally, several factors influence the decision, such as legal regulations, the power of
the trade union and even employee dissatisfaction (and its manifestations). In addition
to the characteristics of the transaction noted above, the behavior of the various actors
must also be considered (limited rationality, opportunism and willingness to take risks)
(Willman, Bryson & Gomez, 2003, p. 8). In addition to direct costs, the costs of the
transaction must also be taken into consideration. The table below illustrates the costs
associated with the transactions.

Table 17: The efficiency of the various mechanisms of voice (organizational
perspective), their risks and direct and transactional costs

<table>
<thead>
<tr>
<th>Channel</th>
<th>To buy (trade union)</th>
<th>Dual system</th>
<th>To make (institution established by the management)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct cost</td>
<td>low</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Transaction cost</td>
<td>high</td>
<td>high</td>
<td>low</td>
</tr>
<tr>
<td>Risk/opportunism</td>
<td>high</td>
<td>medium</td>
<td>low</td>
</tr>
<tr>
<td>Efficiency</td>
<td>medium</td>
<td>medium</td>
<td>high</td>
</tr>
</tbody>
</table>

Source: Willman, Bryson & Gomez (2003, p. 28)

The *purposes of establishing a collective institution of interest representation
functioning not as a trade union* may include the following: helping the flow of
information; “safety valve,” which helps resolve potential conflicts; change
management tool; may improve efficiency by channeling new ideas; may improve
employee dedication and satisfaction; may substitute trade unions if they are too strong or too weak to represent interests (Gollan, 2010, p. 226). Direct participation may only be successful, however, if it is linked with other tools of human resource management, such as training and development (Strauss, 2006, p. 787).

According to Freeman and Lazear (1995 cited in Kaufman and Taras, 2010, p. 273), who believe the main goal of employers is to increase profits, the establishment of participatory institutions has two effects on profits. On the one hand, it improves employee performance through better communication, coordination and morale; on the other hand, it decreases profits by the same amount with which it increases the opportunity of employees to advocate for higher wages and the introduction of other, more costly elements of their working conditions.

If institutions of participation are considered one type of input, which organizations use to produce output, the following picture emerges (Kaufman & Levine, 2000). In this case, we may calculate the limit value product of these institutions, thereby arriving at the optimal level. In other words, organizations will introduce these if the income they derive from them exceeds the costs of establishing and operating them. Organizations will establish several such institutions if they are able to derive a greater increase in productivity growth by doing so; if the costs of establishing and operating them are lower; or if the extensive internal labor market and the total employment, on a macroeconomic level, increase the returns on the costs of establishing such institutions. The more competitive a labor market, the more focus is placed on the establishment of participatory institutions; in a non-competitive labor market, trade unions are placed in the forefront.

If we only consider participatory formats which were created voluntarily (i.e. we disregard works councils mandated by law, for instance) (Kaufman & Taras, 2010), the following picture emerges. The goal of these institutions is generally to create harmony and cooperation, and to foster these within an organization.

In terms of their formats, we may differentiate between ad-hoc/informal and long term/formal institutions. The different size and format may correspond to different functions. One of the most widespread goals is to support communication between employees and management. Another function is related to workplace fairness, and
thereby to the more efficient resolution of conflicts. Certainly, they may fulfill other, more complex and integrative functions, for instance if working conditions or wages are also subject to negotiation. Based on this, then, the issues affected may also differ in specific cases.

Kaufman and Taras (2010, p. 271) point to the four different faces and approaches of these institutions, which in practice may of course be present concurrently.

Table 18: The four faces and approaches of voluntarily established institutions of participation

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Evolutionary</th>
<th>Unity of interests</th>
<th>Circumventing trade unions</th>
<th>Complementary function</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Gradually improve economic position of employees</td>
<td>Establishment of harmonious workplace, where employees do all for the success of the organization</td>
<td>Substituting trade unions</td>
<td>Utilizing advantages of both systems</td>
</tr>
<tr>
<td></td>
<td>- Advance workplace democracy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paradigm</td>
<td>- History</td>
<td>- Unitarist</td>
<td>- Traditional IR</td>
<td>Combination of human resource management and labor relations</td>
</tr>
<tr>
<td></td>
<td>- Institutional (evolutionary) Pluralist</td>
<td>- HR management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- OD</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Economies of scale by establishing employee groups</td>
<td>- Harmony between organizational and employee goals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit for the organization</td>
<td>- Better channeling of employee opinions</td>
<td>- Cooperation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Communication tool between management and employees</td>
<td>- Improved communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Reducing animosity</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit for the employee</td>
<td>- Gradual increase in wages and benefits</td>
<td>- Greater say and influence within the organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- More opportunities to have a say</td>
<td>- Direct access to the management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Increasing independence</td>
<td>- Higher morale</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Better wages and benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The company may raise wages and benefits, and may improve working conditions to prevent organizing Utilizing the benefits of both systems
According to the *evolutionary approach*, the field of labor relations and its institutions may be interpreted as a continuum, with individual interest reconciliation at one end, along with employer unilateralism and a complete lack of employee representation. The first step is interest representation as established by the organization, but not based on trade unions; this structure does not question the authority of the employer and their control over employees, but does provide employees with the experience of joint action. The next perspective focuses on the *unity of interests*. In this case, the employer introduces participatory institutions because just as in other HR practices, the employer expects it to result in increased profit and a competitive advantage. The goal of the employer, however, when introducing these may simply be to *preempt trade union organization*. Thus, for the same reason, it may be that such institutions are introduced within the organization only for a temporary timeframe, focusing on critical situations (e.g. change management, rising dissatisfaction, etc.) which would otherwise motivate employees to organize in a trade union. The fourth face of such participation is when the goal of the employer is not to substitute trade unions, as in the second and third cases, but to *complement* their work.

<table>
<thead>
<tr>
<th>Benefit for the trade union</th>
<th>Evolutionary</th>
<th>Unity of interests</th>
<th>Circumventing trade unions</th>
<th>Complementary function</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Employee demand for trade unions increases</td>
<td>- Institution for resolution of workplace disputes</td>
<td>- If the system is not managed well, dissatisfied employees may begin to organize</td>
<td>- If the organization gets carried away for instance in the area of layoffs, the tactic may backfire, and the demand for trade union presence may increase</td>
<td>- Positive: regains position</td>
</tr>
<tr>
<td>- Level of organization grows over time</td>
<td>- The written and formal description of informal and subjective human resource management practices</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: Kaufman & Taras (2010, p. 271)*
Looking at the Anglo-Saxon data and trends, we may conclude that the proliferation of direct participatory formats is continuing, which is in the interest of both employers and employees (Boxall et al., 2007). Another principle we see taking shape is that in the case of larger organizations, the strength of indirect communication is rising, which helps two-way communication and joint problem-solving (Boxall et al., 2010).

Based on research by Marchington et al., we may draw several conclusions as far as British trends are concerned. In their opinion, corporations in the 1980s relied primarily on four techniques, which they termed employee involvement (in addition to collective negotiations (Marchington, 1994): representative participation (which included joint committees and Japanese-type corporate consulting), top-down communication (which included sharing information with groups of employees, financial reports and other media tools), financial involvement (which included employee stock options and regulations related to the sharing of profits), and bottom-up problem-solving (which included quality circles, TQM and suggestion schemes). The introduction of the various techniques took place in waves, but may still be termed new management techniques, because they did not lead to major changes as far as employee dedication is concerned.

Most companies established a two-channel system, with new measures introduced aimed at employee involvement and complementing the traditional trade union channel. In a later study, the authors examined the attitude of the management to the techniques above (Marchington et al. 2001 cited in Ackers, 2010). The most important link I would wish to highlight is that they only ascribed significance to these techniques if they represented an added value for the organization. For trade unions, this carries the message that employers will turn away from them not only if they are too strong, but also if they are too weak and fail to represent the entire labor force.

V.5. High Involvement Work Practices (HIWP/HIWS)

One area in the examination of High Performance Work Systems (HPWS) is the analysis of High Involvement Work Systems (HIWS). This approach focuses specifically on the involvement of employees and instead of management by results looks at commitment, thus making it critical in terms of both HRM as well as social dialogue. Through this, it focuses on the interests of both the company as well as employees, combining the soft and hard approaches of HRM, and also having an impact on company strategy and the HRM tools applied.
The HIWP approach involves several tools, and does not refer to one special program or practice. The management tools applied cover a range spanning from recruitment strategies to the choice of training strategy and ensuring security in the workplace. The utilization of these tools allows for a flexible corporate structure and increased performance through the expansion of the scope of duties, empowerment, self-managing working groups, two-way communication strategies, participation in decision-making, skills development and appropriate reward schemes (Appelbaum et al., 2000; Edwarda et al., 2001; Lawler, 1992).

Lawler (1992) identified four characteristics and modes which influence the workplace involvement and commitment of employees. These are the following: power, information, rewards and knowledge (and abilities). The power to act (1) enables employees in every facet of work to achieve greater autonomy and control over their work. The introduction of self-managing working groups may be one such HRM tool. In order for employees to be able to make appropriate decisions, they require information (2) as far as processes, quality, consumer feedback and business performance are concerned. Achieving these is supported by well-functioning communications channels as well as feedback mechanisms (for instance corporate surveys or suggestion boxes). In order for employees to focus on the attainment of organizational goals, rewards (3) related to business results and the degree of contribution (according to skills) are required. Finally, the author points to the knowledge and skills (4) of the employee related to their work, the organization of labor and the processes. For instance, the introduction of a rotational program, the establishment of working groups or the selection of an appropriate training and development strategy may contribute to this. The positive impact of the HRM tools above on the four key characteristics has been verified by a number of studies and research projects (e.g. Vandenberg et al., 1999; Butts et al., 2009 in Zatzick et al., 2011; Guy, 2007). A further important characteristic is the extent to which the above criteria apply to all employees of the company, and the extent to which they are present in lower tiers as well (Lawler, 1992).

According to Lawler (1992, p. 578), the advantages of operating a system based on involvement and not on control are manifested in products and services being of a higher quality, in dropped rates of absence, better decision-making and problem solving.
– or, in other words, in an increase in corporate efficiency. It is not specific tools which are important to achieving these, rather the perceptions of employees and their alignment with the organizational culture (Vandenberg et al., 1999).

Recently, a number of studies have dealt with the advantages of HR practices providing exceptional involvement, or those based on commitment, which help improve or increase employees’ skills, motivation and empowerment (Guthrie, 2001). Other authors, through empirical research, have proven that these practices are closely linked to corporate performance, and thereby to competitiveness, by viewing employees as a principal resource which needs to be invested in (Artur, 1994; Huselid, 1995; Guthrie, 2001, Datta et al., 2005; Combs et al., 2006 in Zatzik et al., 2011). They increase employee satisfaction and reduce absences (Zatzick et al., 2011).

Naturally, a number of contextual factors exist which tend to favor management philosophies and organizational structures based on control; i.e. the introduction of HIWP is based on context, as are the benefits derived from it (e.g. Lawler, 1992 p. 47; Porter, 1985; Edwards, 2001; Helper et al., 2002 in Guy, 2003).

Some authors (Wood, 1999; Ramsay et al., 2000; Godard et al., 2000) emphasize that when HIWP is utilized, positive impacts tend to be exaggerated, and employees actually face a number of negative effects (increasing intensity of work, a feeling of uncertainty, stress, increased control resulting from the information and communication technology utilized), which also should not be ignored.

The introduction of HIWP, on the one hand, serves as an opportunity for employees to perform their job better; on the other hand, it also provides a way to present their interests more forcefully (Guy, 2003). If we assume that there are no differences between the interests of employees and employers, then the overall impact on performance is beyond debate. In the case of diverging interests, however, empowerment once again raises the question regarding the extent to which this approach may be utilized in every case, and regarding the extent to which the power to represent interests leads to an increase in salaries, even absent a collective agreement (Guy, 2003, Appelbaum et al., 2000); another question is to what extent the introduction of these tools impacts the role and position of trade unions (Carol et al., 2013).
In summary, we may conclude that the *impact of participatory institutions depends greatly* on whether they are introduced with integrative (unitarist) or negotiational (pluralist) goals in mind, and also on whether the reason for their establishment is offensive or defensive (anti-labor-union). Most studies conclude that participatory institutions are inefficient if they do not serve pluralist goals. They bring no long-term positive benefits to employees or employers, if their main goal is to prevent trade union organization; if the environment in which the organization operates demands a strategic application of cost-cutting; if the management only allows very narrow maneuvering room for these institutions yet does not allow them to get involved in human resource management issues; and if employees lose confidence in the employer for some reason (Gollan, 2006; Moriguchi, 2005; Taras and Copping, 1998; Upchurch et al., 2006; Watling and Snock, 2003 cited in Kaufman and Taras, 2010, p. 277).

*The role of trade unions and collective bargains is decreasing, but this does not mean that employees do not wish to make their voice be heard* (Willman, Bryson & Gomez, 2007, p. 1321). The main transformation lies in the means: direct participation is becoming more and more widespread both in Anglo-Saxon countries (Freeman, Boxall & Haynes, 2007) as well as throughout continental Europe (Poutsma, Ligthart & Veersma, 2006).
VI. The Context of the Empirical Study: The Automobile Industry

The automobile industry is considered one of the most innovative industries in terms of organization and production. Its various new solutions, principles and processes have influenced not only the boundaries of the companies, but also the most important characteristics of the economic system and its paths of development (Hudson, 1994). In this chapter, I will review the defining principles of labor organization, the roles of global value chains, today’s defining trends in the automotive industry, as well as the role of social dialogue in managing the crisis, highlighting general trends.

VI.1. Fordism and Toyotism

In the early 1900s, the automobile industry was characterized by a production system like that of small-scale industry, where lot size was small and prices were high (Mészáros, 2010). Starting in the 1910s, however, with the emergence of Fordism and the introduction of large-industry methods, mass production became possible along with an increase in lot size and a reduction in manufacturing costs. Ford, and the other automobile manufacturers which would follow, maintained control over the entire production system, to include expanding the ownership of vertical integration. (This became looser in the 1950s, when suppliers entered the picture again, as a result of large-scale standardization.) (Turnbull, Oliver & Wilkinson, 1992) Advanced organization and assembly-line manufacturing faced employees with the following expectations. The majority of execution is left up to trained workers, which means training and development do not appear as important factors; the employee is a cost factor for the company, and dedication and loyalty are not defining factors.

In the 1980s and in the early 1990s, there were significant differences in the labor productivity of various companies and plants, due largely to the situation of social dialogue and thereby the organization of labor processes (Hudson, 1994).

The slower growth of the market and increasing competitiveness forced companies of the automobile industry to seek new strategies. This, among others, meant some variation of the steps below. A new concept or new model of mass production (placing not just economies of scale, but also economies of scope in the forefront); new forms to the relationship between work and capital, to include social dialogue; a rethinking of the
capital-to-capital relationship, meaning the relationship to suppliers; seeking new regulatory mechanisms, which made it possible to follow through on the changes above; and consequently seeking new production sites (Hudson, 1994, p. 333).

In the 1980s and 1990s, Japan’s Toyota introduced an entirely new production technology based on the flexible programming of the assembly line. Flexibility and economies of scope – mass custom-tailoring – also appeared, in addition to economies of scale. The sustainability of the Toyota Production System is aided greatly by the cooperative relationship between company management and trade unions. The unquestionable expertise and authority of the management, as well as the so-called dual loyalty of the employee – both toward the management and toward the trade union – make it easier to delegate decisions to employees (Makó & Nemes, 2002; Makó Cs., 2005). The establishment of Toyotism is thus deeply embedded in Japanese organizational culture, the economic situation of the country and the structure of the company. In the labor organization of Toyotism, the involvement of employees and practices supporting flexibility figure importantly. It is typical to train generalists and experts able to fulfill a variety of functions rather than specialists (Castells, 2005). Changes demand an operating structure based on standards and supporting knowledge transfer (see e.g. Adler & Cole, 1994) and the stability of the labor relationship characterized by reciprocity. The expansion of jobs, rotation and reliance on temporary workers is also typical (Smith, 1997). The recession following World War II led to mass layoff also in Japan, which was accompanied by a large wave of strikes. Companies were afraid to manage production increases – driven partly by the U.S. market – by increasing employee numbers, so they gradually entrusted more and more suppliers with fulfilling certain tasks. The scarce resources available were put toward planning and assembly, and they strove to establish long-term relationships with suppliers, based on trust and cooperation; this was contrary to Fordism, where the approach was cost-led and quality-focused. Certainly, Fordism is no uniform production system, since the various auto manufacturers, for instance, established entirely different supplier systems in Europe and in the United States (where they produced more parts themselves, in-house), to adapt to local circumstances and regulations (for instance EU requirements related to local content) (Hudson, 1994; Hudson, 2002).

This latter calls attention to the role of various parts manufacturers and companies in the value chain, which may play an important role in managing labor relations within the auto industry and within the specific company.
VI.2. Global Value Chains and their Role in the Automobile Industry

The automobile industry is characterized by vertical integration dominated by the manufacturer, where the manufacturer coordinated the creation of value among companies and within the company. These relationships are defined by market competition, the extent of cooperation and hierarchy (Gereffi, 1999). An examination of the global value chains provides an opportunity not just to analyze the geographic location of these activities, but also to answer the question of how and why power relationships evolve between the various companies and actors; they also highlight the role the various institutions play in terms of geographic location and business relationships (Sturgeon, Biesebroeck & Gereffi, 2008). These relationships even influence how the various organizations relate to their employees and what human resource management tools they apply.

Under Fordism, automobile manufacturers – as mentioned above – easily replaced suppliers: their focus was on cost factors. Under Toyotism, however, a close cooperation with suppliers is key. Mass custom-tailoring, which replaced mass production, demands greater flexibility and cooperation; thus significant differences evolved in the vertical chain between primary, secondary and tertiary suppliers (Mészáros, 2010).

Ruigrok and van Tulder (1995 cited in Mészáros, 2010) distinguish between three main types of supplier networks: informally managed hierarchy, formally managed hierarchy and learning networks. In the case of an informal hierarchy, which is close to Toyotism, structural control is the main coordinating mechanism, and suppliers have no relationships with other companies. The authors believe this matches Toyotism most closely. The formally managed hierarchy corresponds to an early Fordist structure, realizing direct control through vertical integration. The third type consists of equal partners, who are interested in sharing knowledge.

Another categorization distinguishes between five types of relationships, which are defined by the complexity of the transaction, the codifiability of information and supplier abilities. In market relationships, the deciding factor is the cost; the costs of switching partners are generally low, so relationships are short-term and one-off. In the case of modular relationships, suppliers produce goods according to the specifications of the customer, possibly producing goods concurrently for several customers. In the case of close relationships, a kind of mutual dependence evolves, and the tools of the
supplier are specific to the customer. In the case of one-sided dependence, the supplier becomes vulnerable because of having implemented product-specific investments. The fifth type is the hierarchy, in which case the company essentially produces the given product on its own (Sturgeon, Biesbroeck & Gereffi, 2008).

Examining global supply chains, Helper and Sako differentiated between three phases (Helper & Sako, 2010). The first phase, characterized primarily by mass production, is the time of make-or-buy decisions, according to Chandler (1990). In Chandler’s opinion, for a company to ensure the appropriate resources for mass production (made possible by telecommunications and transportation), it requires vertical integration which must be based, primarily, on ownership.

The second phase, characterized by lean production, is the time of non-integration (i.e. exit or voice), where motivating suppliers and the flow of information are critical. Even the phase termed the time of vertical integration by Chandler saw companies which managed to reduce costs and cut risk not through vertical integration. One such example is that of Toyota, whose strategy might be called voice-based non-integration (Helper & Sako, 2010, p. 410). The company closely tracked and cooperated with its suppliers, but the suppliers were able to retain their financial independence. Any problems were generally discussed with suppliers rather than having Toyota look for new suppliers. General Motors (GM), before the Japanese manufacturers entered the market, generally focused on the short term, always looking for the cheapest supplier. Certainly, this left an impact on quality, but this – until substitute products appeared in the market – did not cause problems for the company. With the intensifying of competition, GM established a system of exit-based vertical dis-integration in the 1990s. In this spirit, it sold several production sites to obtain cash and to obtain non-unionized workers. While in the case of Toyota, knowledge sharing was the main driver, GM chose to focus rather on regulated agreements.

Further reductions in the cost of telecommunications and transportation led to vertical dis-integration, along with the geographic separation of certain production areas in the New Economy. In the automobile industry, the latter is advanced by so-called platform strategies, which means that the same module may be installed in different products; this is advantageous not only in terms of economies of scale, but it also helps advance global optimization (Mészáros, 2010, p. 8).
If we link the phases described above with Perez’s (2009) theory related to technological and economic paradigms, we may conclude that the responses of the automobile industry to the challenges emerging at various points in time match the defining principles and practices of the given paradigm.

In sum, looking at the economic geography of the automotive industry, we may conclude that global integration matches the relationship of customer and supplier, and primarily covers automobile manufacturers and their main suppliers. Production is organized above all on a regional and national level, and the production of model-specific parts is moved closer (geographically) to assembly plants. The manufacturing of smaller, more general parts may be located farther, utilizing economies of scale and the benefits of low labor costs (Sturgeon, Biesebroeck & Gereffi, 2008, p. 10; Humphrey & Memedovic, 2003). In terms of regions, there appears to be a shift toward those where operating costs are lower (in the case of Europe, toward Central and Eastern Europe and Spain). Following the transformation, the renewal of the Hungarian automotive industry occurred through foreign working capital investments, whose primary driver was ready access to relatively cheap and highly skilled workers (Bohle & Greskovits, 2012).

The majority of the processes seem to foreshadow a shift toward the system of Toyotism: the emergence of more concentrated markets and the emergence of increasingly large suppliers who strive for the deepest possible and a long-term relationship with automobile manufacturers (Mészáros, 2010, p. 62). Certainly, this will bring about changes in the system of labor relations, including in the way institutions operated at the company level function.

VI.3. Trends in the Automobile Industry, with a Special Focus on the Crisis

The crisis of the oil industry in the 1970s had a significant impact on the automotive industry, although the different automobile manufacturing countries were affected to different extents. The effect was the greatest in countries where growth was based on internal consumption (the United States, France and Italy), and the models produced were not competitive in terms of exports. On the other hand, countries which had been producing for exporting to begin with were able to increase their market share with their
models intended for higher-income groups (Germany and Sweden) or by offering lower prices (Japan) (Somai, 2009).

The structure of demand changed in the United States starting in the early 1980s, with better-off segments turning to light trucks, with those affected by the changes and ending up in more difficult circumstances favoring cheaper or used vehicles. Compared to traditional models, a profit of 12-13% could be realized on light trucks, which made GM and Ford profitable again in the early 1990s. Later, driven by cost-efficiency and economies of scale, the non-visible parts of vehicles were standardized, and visible parts were improved and developed as a result of economies of scope. Design phases were centralized at the parent company, many activities were outsourced and customer service was diversified. As a result of the increasingly difficult financial situation of U.S. households, automobile sales began dropping as early as 2005. As a result of the crisis, manufacturers will likely have to renegotiate social security conditions with industry trade unions; they will have to increase workers’ ownership due to debt; and they will have to reduce their model palette in order to remain competitive (Somai, 2009).

One telling figure about the scale of the European auto industry is that over one-third of the jobs in the processing industry are connected to it in some way: 2.3 million jobs directly, and an additional 10.3 million jobs indirectly. Twenty-seven percent of the world’s production capacity is located in Europe (ACEA, 2011).

Data from 2005-2007 show that even prior to the crisis, production and the number of jobs dropped in Western Europe, even as they increased in Central and Eastern Europe. The region’s initial share of 15% increased to one-fifth of all production in Europe. In countries of Central and Eastern Europe, the level of production and employment both grew. Output doubled in Slovakia, while production increased by 90% in Hungary (ACEA, 2012; OICA, 2012).

The crisis which began in 2008 had a significant impact on the automobile market, including the automotive industry, especially because this industry is a net exporter in Europe. In 2008, production dropped by nearly 7%. Despite the fact that 2010 saw growth of 11%, the 2010 figure is still 8% lower than the 2008 figure (ACEA, 2012). The crisis had an uneven effect on production in the various EU member states, which
companies responded to by postponing development, introducing shorter working hours and temporarily suspending production.

In order to mitigate the effects of the crisis, government programs generally attempted to help the passenger vehicle market by providing soft loans, credit guarantees, tax incentives to purchase and maintain cars, and through state-subsidized scrappage programs (Haugh, Mourougane & Chatal, 2010). As a result, internal consumption increased in several countries (for example, by 23.2% in Germany in 2009; by 10.7% in France; and by 8.8% in Austria). Yet there were certain countries where despite such subsidies, the number of passenger vehicles sold dropped.

By supporting low-emission passenger vehicles, the crisis had various impacts on demand for certain makes and models, and thus affected different manufacturers’ production numbers in different ways. Looking at the 15 members states of the European Union, certain manufacturers saw demand drop: BMW (-15.3%), Mercedes (-13.8%) and Audi (-7%). Others saw an increase in sales (2009 figures): Fiat (7.2%), Alfa Romeo (7.8%), VW (6.6%), Skoda (16.8%), Dacia (95%), Hyundai (32.2%) and Kia (12.1%) (Pedersini, 2010, p. 18). This meant that there were certain manufacturing sites where they introduced shorter working hours, while other sites saw workers having to work significant hours in overtime.

For the automobile industry, however, it is not only the economic crisis of the short term and associated government responses which are of importance. The industry saw a great deal of change since the 1980s, suggesting that a number of other factors played major roles: internal reorganization (defined largely by the consolidation of supplier structures and mergers and acquisitions), the increasing importance of environmental consciousness in the long and medium term, technological change, managing over-production and opening to new markets and developing countries (Sturgeon & Van Biesebroeck, 2011; Pedersini, 2010; OECD, 2011). In sum, the overall picture is shaped by (1) the short term impact of the crisis; (2) losses accrued in the longer term from a drop in market share; (3) up-and-coming markets, especially the rising position of China and India; (4) increasing production in Africa and Asia; and (5) waves of acquisitions and mergers (Graham, 2010, p. 2).

When examining the short term impacts of the crisis, we must also therefore consider long term trends as well, such as an aging population, urbanization, the transformation
of transportation models, the role of new technologies or changing demand. The automotive industry is a slow study, primarily as a result of its organizational structure and business model. The crisis, therefore, offers an opportunity for change, if stakeholders are able to join forces (Graham, 2010, p. 65). The short and long term trends above also impact employment. The key question, in addition to production location, is the establishment of a training and retirement system (Graham, 2010, p. 60).

VI.4. The Role of Labor Relations in Managing the Crisis

The crisis has also served as an opportunity to rethink contracts and the capital-to-work relationship. The crisis of the automotive industry was not only a result of the economic and financial crisis examined, but also a question of the extent to which a new, sustainable model is able to evolve by transforming products and strategies, and training and retaining the appropriate labor force. With the realignment of the industry, there will be new losers and winners, leading to an increasing role for social partners, not just in the establishment of the new model, but also in managing the above.

In general, it may be concluded that in the automobile industry, the proportion of workers covered by collective agreements was high, and trade union interest representation was strong. In recent years, however, with the drop in vertical integration, the significance of these institutions has been eroded. (EC, 2010) This is, on the one hand, a consequence of reorganization, layoffs and outsourcing, and on the other hand, a result of the fact that companies are working to place their production in locations where trade unions are traditionally weaker, such as in Central and Eastern Europe or in the northern part of the United States (Hudson, 2002). Despite all of this, the automobile industry tends to see higher levels of organization than other processing industries in terms of national economy averages.

Naturally, the institutional system of each country influences the situation of the trade unions and trade union groups operating in a specific industry, along with the level of, and the subject covered by, any bargains. Collective bargains are common in the automobile industry: most companies participate in highly institutionalized company-

1 This subchapter is primarily a summary of Pedersini’s (2010) work.
level negotiations, which most often complement sectorial-level agreements (except in England and Hungary, where there is no sectorial-level bargain, and in Spain).

In Hungary, the employee side is represented by the Vehicle Industry Professional Alliance (a member of the Hungarian Metalworkers’ Federation, which is a member of the National Confederation of Hungarian Trade Unions), the Democratic Confederation of Free Trade Unions (LIGA) and the National Federation of Works Councils (MOSZ). As a professional organization, the Association of the Hungarian Automotive Industry (MGSZ) represents the most companies, along with the Association of Hungarian Automotive Component Manufacturers (MAJOSZ). There are no collective talks on a sectoral level; MAJOSZ participates in the Machine Industry Dialogue Committee. MGSZ is not a member of the Committee.

The level of trade union organization is approximately 20%, according to data provided by company trade unions; the percentage of employees covered by collective agreements in 2008, however, was 11% (EC, 2010, p. 15); in terms of issues, it was primarily working hours and flexible working hours which were most important.

The following key solutions were developed to manage the crisis.

In France, the main tool for managing the crisis was resorting to partial unemployment, which was the result of inter-sectorial, sectorial and company collective agreements. What it meant is that on days when employees were not working (maximum of 1000 hours), they received unemployment benefits; for days when they were working, they received at least 75% of their gross wages. The minimum hourly wage was also determined and was supported by the state. Days when the employee was not working could be used for training and other development. Companies, the state as well as a fund created for the crisis (composed of 0.15% of employee wages) provided the financial resources for the program.

At Renault, partial unemployment affected not just those working in production, but also those in professional and managerial positions. In addition, other tools included voluntary separation and early retirement, as well as paid leave for those attending training or another development program.

PSA Peugeot relied on voluntary separation in both professional as well as managerial positions. At this company, there were fewer conflicts between employers and trade unions, because the management was willing to pay not 80%, but a full 100% of employee gross wages in the case of partial unemployment for six months; this amount
then dropped to 90%, and employment was assured for twice as long as the time spent in unemployment.

In Germany, seventy percent of automobile companies relied on shorter working hours as a solution to manage the crisis. On a corporate level, Daimler saw demand drop in market segments which were not supported by the state. Thus, in exchange for the company ensuring employment for all through the end of 2009 (and through 2011 for those hired prior to 2004), the following agreement was concluded: the working hours of each employee were cut by 8.75%; during the shorter working hours, they only provided 80.5%-93.5% of net wages instead of 100%; pay increases were postponed (even those agreed to in 2008); and a certain percentage of the dividend was put toward this program.

In Italy, the Fiat Group relied primarily on an easily callable wage guarantee fund to manage the crisis, which did not require talks and agreements with trade unions. The other decisions of the management (e.g. closing the plant in Termini) were also not open to negotiation. The only agreement that was concluded had to do with performance-related benefits; this agreement was not signed by all of the trade unions.

In Spain, the Employment Regulation Process (Expediente de Regulación de Empleo, ERE) was used by most major corporations and parts manufacturers to manage the crisis, making it possible to temporarily lay off workers. The process prescribes talks with employee committees, and regional employment offices must also approve the agreements.

In Sweden, the automobile industry accounts for 2% of the total employment. Local manufacturers (Saab and Volvo) underwent changes in ownership during the crisis, when parents companies were reorganized. To manage the crisis, they relied on cost-cutting solutions and temporary layoffs; trade unions were involved in discussions.

In England, collective agreements were aimed primarily at reducing working hours and cost-cutting related to the labor force; this was achieved through voluntary and mandatory layoffs.
In Slovakia, mass layoffs (PSA Peugeot) to manage the crisis were complemented by cutting working hours and increasing flexible hours; corporate-level agreements were widespread.

Companies in Hungary, with the exception of Suzuki and smaller component manufacturers (employing trained workers) were able to avoid mass lay-offs. If we compare employment data for January-August 2008 and 2009, we see a drop of 23% in terms of vehicle manufacturing (Neumann, 2009, p. 6). Cutting working hours was something companies utilized in general without providing any compensation; trade unions also tended to focus more on securing jobs, thereby supporting the various types of cost-saving measures. The table below includes the automotive industry suppliers and manufacturers most affected by lay-offs.

Table 19: Major mass lay-offs in the automotive industry in Hungary from October 2008

<table>
<thead>
<tr>
<th>Hungarian Company</th>
<th>Location</th>
<th>Mother Company</th>
<th>Number of employees</th>
<th>Number of employees laid off</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suzuki</td>
<td>Esztergom</td>
<td>Suzuki</td>
<td>5523</td>
<td>1200</td>
</tr>
<tr>
<td>Ibiden Hungary</td>
<td>Dunavarsány</td>
<td>Ibiden Co. Ltd</td>
<td>1200</td>
<td>430</td>
</tr>
<tr>
<td>Videoton Car Electronics</td>
<td>Székesfehérvár</td>
<td>Videoton Holding</td>
<td>1300</td>
<td>400</td>
</tr>
<tr>
<td>Bosch Hungary</td>
<td>Hatvan</td>
<td>Bosch Group</td>
<td>3118</td>
<td>318</td>
</tr>
<tr>
<td>Delphi Hungary</td>
<td>Szombathely</td>
<td>Delphi Corporation</td>
<td>1150</td>
<td>250</td>
</tr>
<tr>
<td>Bakony Press</td>
<td>Veszprém</td>
<td>-</td>
<td>250</td>
<td>250</td>
</tr>
<tr>
<td>Rába Automotive Holding Plc.</td>
<td>Győr</td>
<td>-</td>
<td>835</td>
<td>250</td>
</tr>
<tr>
<td>Borg Warner Turbo System</td>
<td>Oroszlány</td>
<td>Borg Warner Inc</td>
<td>745</td>
<td>172</td>
</tr>
<tr>
<td>Saia Burgess Ozd</td>
<td>Ozd</td>
<td>Saia Burgess Electronics</td>
<td>700</td>
<td>150</td>
</tr>
<tr>
<td>Knaus Tabbert Hungary</td>
<td>Nagykoroszi</td>
<td>HTP</td>
<td>270</td>
<td>150</td>
</tr>
<tr>
<td>Autoflex-KNOTT</td>
<td>Kecskemét</td>
<td>KNOTT</td>
<td>330</td>
<td>120</td>
</tr>
<tr>
<td>Visteon</td>
<td>Székesfehérvár</td>
<td>Visteon</td>
<td>1276</td>
<td>110</td>
</tr>
</tbody>
</table>

Source: Neumann (2009: 6)

Government measures were intended to shift the industry toward higher value-add products. Thus, they tended to support new positions created in the field of research and
development, training support programs and the development of automotive industry suppliers (with a special focus on small and medium enterprises). No funding was specifically allocated to these programs; rather, exiting resources were reassigned (Neumann & Boda, 2011; EC, 2010).

Naturally, subsidiaries active in the automotive industry also benefitted from support provided to mother companies. Finally, changes to the Labor Code – some of them temporary – also may be considered a type of government support. These included, for instance, making it possible to turn a 40-hour workweek into a 44-hour workweek between June 1, 2009 through December 31, 2011; or that if special conditions were met, the upper limit of overtime may be increased from 200 hours to 300 hours (Neumann & Boda, 2011). The purpose of these measures was to enable companies to carry over overtime accrued without any additional costs to a time after the crisis.

No sector-wide agreements were concluded to manage the crisis. Trade unions, in order to protect jobs, were generally willing to agree to cost-saving measures.

The table below summarizes the train of thought above, indicating the role social dialogue played in managing the crisis in the various countries.

Table 20: The role of social dialogue in managing the crisis in the automobile industry

<table>
<thead>
<tr>
<th>Country</th>
<th>Main tool to manage the crisis</th>
<th>The role of social dialogue</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Partial unemployment</td>
<td>Moderate</td>
<td>Government intervention played a key role in supporting the sector, and in creating the resources for partial unemployment</td>
</tr>
<tr>
<td>Germany</td>
<td>Shorter working hours Collective wage freeze Cost-cutting measures</td>
<td>High</td>
<td>Sectorial-level agreements were the main tools of intervention</td>
</tr>
<tr>
<td>Hungary</td>
<td>Shorter working hours Cost-cutting measures</td>
<td>Moderate</td>
<td>Corporate policy and corporate-level bargains played a key role</td>
</tr>
<tr>
<td>Italy</td>
<td>Wage guarantee funds</td>
<td>Low</td>
<td>Low involvement of trade unions; wage guarantee funds proved to be an easily accessible tool, which did not require talks with trade unions</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Shorter working hours Cost-cutting measures</td>
<td>Moderate</td>
<td>Corporate policy and corporate-level bargains played a key role</td>
</tr>
<tr>
<td>Country</td>
<td>Main tool to manage the crisis</td>
<td>The role of social dialogue</td>
<td>Note</td>
</tr>
<tr>
<td>---------</td>
<td>--------------------------------</td>
<td>-----------------------------</td>
<td>------</td>
</tr>
<tr>
<td>Spain</td>
<td>Employment Regulation Process (Expediente de Regulación de Empleo, ERE)</td>
<td>Low</td>
<td>Corporate bargains played a key role because of the limited applicability of other institutions of labor relations due to the ERE</td>
</tr>
<tr>
<td>Sweden</td>
<td>Temporary layoffs</td>
<td>High</td>
<td>Sectorial-level agreements played a key role related to temporary layoffs</td>
</tr>
<tr>
<td>England</td>
<td>Corporate-level agreements for temporary shutdowns Shorter working hours Wage freeze</td>
<td>High</td>
<td>Corporate-level agreements led to differences in choosing most important solutions</td>
</tr>
</tbody>
</table>

Source: Pedersini, 2010, p.38

Although production fell by 20% in the European Union, short-term measures by governments resulted in a proportionally lesser drop in employment levels. Social dialogue contributed to the management of the crisis, either through legal means (as in the case of Germany or France) or through collective agreements. Italy and Spain were an exception where the role of social dialogue may be said to have been limited. The crisis did not fundamentally change the industry, but it did speed up processes already underway. At the same time, it called governments’ attention to the automobile industry, especially in those countries where the industry plays a key role.
VII. Research Plan

In this chapter, following a short description of the links in the literature, I will summarize the research questions and will describe the methodology of my empirical research.

VII.1. Research Goals and Research Questions

Based on the theoretical approach of the varieties of capitalism, we may conclude that Hungary forms a part of the Central and Eastern European cluster, both in terms of market economy context as well as in terms of the field of human research management. Examining and analyzing this group of countries may be critical as relates to the relationship of social dialogue and the crisis, especially if we consider the theoretical framework of segmented capitalism.

The theory of varieties of capitalism is complemented well by an examination of global value chains, which examines not just embeddedness in the national economy, but also the global production chain (Sturgeon, Biesbroeck & Gereffi, 2008; Gereffi, Humphrey & Sturgeon, 2005). This approach focuses primarily on the relationship of capital to capital – in other words, the relationships between companies (Thompson, 2010). My empirical research also adds to this an examination of the relationship of capital to work, by examining supplier relationships, institutions of participation, forms of voice and employers’ attitude to participation.

By following an analytic approach to human resource management, my goal is to hear both the employee and the employer side concurrently, and to examine how the various human resource management practices have brought about new solutions to advance participation as a result of the crisis; as well as to examine the extent to which the interest reconciliation role of human resource management is in the forefront in such situations.

I chose the automobile industry as the context of my empirical research, for the following reasons. In the twenty-five member states of the European Union, the automobile industry accounts for 8% of the added value in the processing industry. Foreign direct investments played a key role in the economic transformation of Hungary, making the auto industry an important case study also in this respect. In Hungary, the industry began developing in earnest in the 1990s. Large investments
started out as technological islands, and were not especially embedded in the background industry of the country. During the second half of the 1990s, the strategies of large auto industry corporations changed, and assembly and parts manufacturing plants – producing primarily for exports – were placed in Central and Eastern Europe. It thus became possible to produce high value-added parts at a relatively low cost. The third phase of integration was not just economic, but also political in nature, when these countries acceded to the European Union (Fortwengel, 2011). In addition to the general trends described above (the proliferation of Toyotism, for instance), several studies concluded that the countries of Central and Eastern Europe were able to move up in the global value chain (Fortwengel, 2011; Jürgens & Krzywdzinski, 2009), thereby changing the situation of suppliers – and thus, ostensibly, the situation and role of social dialogue. Additionally, in these countries – including Hungary – these investments included path-dependent and path-forming elements (Hudson, 2002), making the region all the more interesting from a research perspective.

Fig. 4: Research links based on the research plan

| Macro level: the context                                                                 |
|---------------------------------|---------------------------------|
| Social dialogue and the Central-Eastern European model of HRM                             |
| The model of segmented capitalism - differences between sectors                           |
| The role of global value chains                                                      |
| Global and regional trends in automobile industry                                     |
| Economic- and financial crisis                                                     |

| HRM and the social dialogue                                                                 |
|---------------------------------|---------------------------------|
| The roles of HRM                                     |
| The role of the relevant concept of participation, which comes from the HRM practices as well |
| The used methods and solutions during the crisis                                 |
| Employer and employee side                                                  |

| Main value of the research I.                                           |
|---------------------------------|---------------------------------|
| Linking the macro and micro level together                               |
| The Central-Eastern European model in the context of automobile industry |
| Global value chains: analysis of labor-capital relation                    |
| The role of the crisis in changing the content and practices of social dialogue |

| Main value of the research II.                                           |
|---------------------------------|---------------------------------|
| The role of types of participation in social dialogue                    |
| The role of HRM in a special context                                    |
| Analysis of employer and employee side together                           |

99
Looking at the goals of research, Maxwell (2005) distinguishes between the following: intellectual or scientific purposes, which are aimed at understanding something; practical purposes, which strive to reach something specific; personal, individual goals which include the motivations of the researcher. Intellectual purposes in this case: linking the fields of human resource management and labor relations, examining the employee and the employer side concurrently with respect to the negotiational function of social dialogue; nuancing the unique features of the Central and Eastern European model in terms of human resource management and labor relations. Practical purposes include nuancing the role of trade unions, analyzing employer attitudes towards participation and a deeper analysis of the effects of the crisis. My personal goal, primarily, is to obtain my PhD, and to deepen my knowledge related to writing case studies.

When planning my research, I considered both theoretical and practical aspects of the questions proposed, placing the understanding of the specific phenomena in the focus (Maxwell, 2005). At the focus of my research questions is the research problem (the relationship of social dialogue and the crisis); it is linked to my research goals through the knowledge summarized in the overview of the literature.

Alasoini (2011) distinguishes between three types of knowledge necessary for developing workplaces and innovation: knowledge connected to planning, to the process and to dissemination. Planning involves the examination of measures to be introduced and connecting them to the strategy and to one another (answering the question of what to introduce); the process involves the “how” of implementation; while dissemination provides the guide to ensure that measures to be introduced are accepted and that the steps necessary to introduce it are clear.

In my paper, I examine the evolution of the negotiating function of social dialogue during the crisis – the extent to which new solutions were created. I also look, on the other hand, at the extent to which these were path-dependent (structural, cognitive or defined by ideology). In light of the above, I examine the context (strategy) of measures introduced during the crisis and their content, the process of the talks and the communication of the dissemination of the agreements, along the lines of the following questions:
• Context (strategy)
  o How does the position of the various companies in the global value chain impact the establishment of institutions of participation and employers’ attitudes?
  o What role did/does social dialogue play in the moderation of the impacts of the crisis and in mitigating negative effects?
    □ Are strategies of survival, rationalization or adaptation more widespread?
    □ What are the main motivations on the part of the employee and on the part of the employer for concluding agreements?
  o To what extent does the HR strategy of the company influence the responses to the crisis?

• The substance of the measures
  o Are the elements of the measures introduced (agreements) to be considered innovation or not (either in the context of the company or in a broader context)?
  o Were the agreements integrative or distributive in nature?

• The process and communication of the talks and the introduction of the measures
  o What form of participation was realized and on what level?
  o In terms of the process of the dialogue: is it to be considered innovation (either on the side of the employer or the side of the employee or interest representation group)?

VII.2. Research Methodology

According to the research goals and the research questions, I conducted the study by relying in part on relevant empirical research as well as by conducting a secondary analysis of available case studies applicable to Hungary, and in part by preparing two case studies to explore the connections between the context and corporate practices. The purpose of the secondary analysis of related empirical research was in part to explore and organize the relevant literature, and in part to obtain a deeper understanding of the context, whose results I have incorporated into the theoretical chapters of the dissertation.
Research based on case studies may be conducted by following different methodologies and approaches. The goal of the case study may be to construct a theory (Eisenhardt, 1989; Yin, 2004), or to provide a thorough examination and understanding of the local context (Bryman, 1992). In terms of the cases examined, we may distinguish between intrinsic case studies, instrumental case studies and collective case studies. Intrinsic case studies focus on the particular case, with the researcher wishing to obtain as deep an understanding of that as possible. An instrumental case study places the understanding of a phenomenon or the construction of a theory at its core; while the purpose of a collective case study is, clearly, to generalize (Stake, 1994, p. 236). In my dissertation, the primary purpose was to explore and understand the local context, as well as to obtain an understanding of the local practices of companies examined in accordance with the instrumental case studies. Thus, the goal of the analysis is not to generalize, but rather to construct a theory, to add to and nuance the theoretical and practical literature examined and to describe connections applicable to local circumstances.

Research may proceed according to different sampling strategies, which may also be used in a complementary fashion, jointly, within the same study (Miles & Huberman, 1994, p. 28; Bokor A., 1999; Gelei, 2002).

Table 21: Sampling strategies in qualitative research

<table>
<thead>
<tr>
<th>Type of sampling</th>
<th>Essence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximal difference</td>
<td>Seeking out cases different than the average to detect common patterns</td>
</tr>
<tr>
<td>Homogeneity</td>
<td>Used to focus and simplify</td>
</tr>
<tr>
<td>Critical case</td>
<td>Makes logical generalization and application in other cases possible</td>
</tr>
<tr>
<td>Theory-based</td>
<td>Seeking out, examining and refining examples of a theoretical structure</td>
</tr>
<tr>
<td>Cases to prove or disprove</td>
<td>Making the initial analysis more precise; seeking out exceptions</td>
</tr>
<tr>
<td>Snowball or chain concept</td>
<td>Seeking out cases rich in information through personal recommendations</td>
</tr>
<tr>
<td>Extreme or deviant cases</td>
<td>Learning from the entirely unusual appearance of the phenomenon studied</td>
</tr>
<tr>
<td>Typical cases</td>
<td>Seeking out and highlighting the norm and the average</td>
</tr>
<tr>
<td>Intensity</td>
<td>Cases rich in information, which present the phenomenon examined intensively, but not extremely.</td>
</tr>
<tr>
<td>Type of sampling</td>
<td>Essence</td>
</tr>
<tr>
<td>------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>Cases important for political reasons</td>
<td>To call attention or divert attention intentionally</td>
</tr>
<tr>
<td>Random targeted</td>
<td>To increase validity, if the possible targeted sample is still too large.</td>
</tr>
<tr>
<td>Segmented targeted</td>
<td>To present and compare sub-groups</td>
</tr>
<tr>
<td>Criteria</td>
<td>Each case which meets certain pre-requirements; for quality</td>
</tr>
<tr>
<td>Opportunistic</td>
<td>Following possibilities and new directions which arise</td>
</tr>
<tr>
<td>Combined or mixed</td>
<td>Triangulation, flexibility and to meet various goals and multi-faceted interest</td>
</tr>
<tr>
<td>Comfortable</td>
<td>Saving time, money and resources, but weaker validity</td>
</tr>
</tbody>
</table>

Source: Gelei (2004, p. 172)

In my dissertation the two case studies are theory-based, so they can help in understanding the different practices in their context.

There appears to be a consensus in the literature in that when writing a case study, the researcher must be of an interpretative position, for instance to present the perspectives of various stakeholders (Huws & Dahlmann, 2007). Within the interpretative paradigm, however, there are several approaches and techniques of data collection (Gellei, 2002). Research studies relying on case studies may use a number of data collection techniques. The table below provides a summary of the pros and cons of the various data collection techniques.

Table 22: Pros and cons of data collection methods

<table>
<thead>
<tr>
<th>Data collection technique</th>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documents</td>
<td>Stable, can be reviewed</td>
<td>May be transported and selected</td>
</tr>
<tr>
<td></td>
<td>May not be influenced –</td>
<td>Access may be limited</td>
</tr>
<tr>
<td></td>
<td>exists prior to the case study</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Precise</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Broad coverage – broadening</td>
<td></td>
</tr>
<tr>
<td></td>
<td>the timespan</td>
<td></td>
</tr>
<tr>
<td>Archive reports</td>
<td>Same as above</td>
<td>Same as above</td>
</tr>
<tr>
<td></td>
<td>Precise and quantitative</td>
<td>Possibly classified</td>
</tr>
<tr>
<td>Interview</td>
<td>Targeted – focusing on the</td>
<td>Wrong questions</td>
</tr>
<tr>
<td></td>
<td>case</td>
<td>Refusal to answer</td>
</tr>
<tr>
<td></td>
<td>Causal conclusion possible</td>
<td>May not be repeated</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reflexivity</td>
</tr>
<tr>
<td>Observation</td>
<td>Reality – real time</td>
<td>Takes time</td>
</tr>
<tr>
<td></td>
<td>Contextual</td>
<td>Selective</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Reflexivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Costly</td>
</tr>
<tr>
<td>Data collection technique</td>
<td>Pro</td>
<td>Con</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Participatory observation</td>
<td>Same as above</td>
<td>Same as above</td>
</tr>
<tr>
<td></td>
<td>Interpersonal behavior may be observed</td>
<td>Interference in the life of the organization</td>
</tr>
<tr>
<td>Physical objects</td>
<td>Unique cultural features</td>
<td>Selectiveness</td>
</tr>
<tr>
<td></td>
<td>Technical details</td>
<td>Access</td>
</tr>
</tbody>
</table>

Source: Huws & Dahlmann (2007, p. 15)

In my research, and with regard to my own case studies, the main focus is provided by qualitative interviews (Kvale, 1996), complemented by the method of document analysis. The unit of analysis is the company itself; my goal is to understand and describe the employee and the employer side, using the research questions.

The various cases will be appropriate to confirm or disprove the theory, as well as to present critical or extreme situations (Yin, 2004). The goal will be to understand the trends detected and the processes embedded in the local context in each case.

The two case studies used relied primarily on interviews, and to a lesser degree on document analysis (corporate websites, annual reports, company newsletters, HR directives, strategic documents, collective agreements). In the case of Audi Motor Hungária Kft., interviews were conducted with the managing director responsible for human resources, two employees, the head of the works council and with a member of the Job Safety Committee. At CabTec Kft., interviews were conducted with the HR director, the head of the works council and two employees (one from the cutting unit and one from the assembly line). In the case of Audi Motor Hungária Kft., I added to the prepared case study in several places based on interviews conducted with the vice chair of the trade union and an HR staffer (the interviews were conducted in summer 2015), as well as based on other analyses made of the company. The interviews were one hour long and were based on the research questions. In the case of CabTec Kft., the case study prepared in 2012 was entirely reinterpreted and reframed, as all individuals have been replaced in the time since, and therefore had no information about events during the crisis.

Thus, on the one hand, it is the retrospective interviews which serve as the limitations of empirical analysis, with the interviews being suitable primarily for describing the facts; they do not really shed light on the details of the process of the talks and their breadth.

In the case of measures taken to manage the crisis, a further difficulty is that studies which were prepared immediately after the onset of the crisis did not reveal much
information, as the information was handled confidentially. Another limitation is related to the secondary analysis of case studies. The purpose of the case studies used, and their key question, was the following: how did the various companies introduce flexible working hours schemes in a way so that they have a positive impact both on production as well as on working conditions, with a special view to work-life balance? (Goodswaard et al., 2012) The analysis of the data collected, however, makes it possible to answer my research questions, as they extend to both organizational responses to the crisis as well as to the role of social dialogue.

Another approach distinguishes between exploratory, explanatory and exemplary case studies, which differ from one another in terms of main goal and in outcome (Huws & Dahlmann, 2007). The table below depicts the main differences between the three types.

Table 23: Exploratory, explanatory and exemplary case studies

<table>
<thead>
<tr>
<th>Type of case study</th>
<th>Exploratory</th>
<th>Explanatory</th>
<th>Exemplary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main purpose</strong></td>
<td>Explore new phenomena</td>
<td>Test hypotheses</td>
<td>Describe best practices</td>
</tr>
<tr>
<td><strong>Outset</strong></td>
<td>A few preliminary thoughts on the nature of the phenomenon; Open questions</td>
<td>Clean hypotheses or research questions</td>
<td>Criteria of best practices</td>
</tr>
<tr>
<td><strong>Sample</strong></td>
<td>Opportunistic selection of sample, making it possible to examine several layers of the phenomenon</td>
<td>Selection of typical sectors, organizational size, etc., making triangulation with quantitative data possible</td>
<td>Selecting best practices</td>
</tr>
<tr>
<td><strong>Outcome</strong></td>
<td>Describe the case; define indicator and research questions which may form basis of further research</td>
<td>Scientific theses, supported by empirical data to answer the questions of “how” and “why”</td>
<td>Clean case studies which contain the most important lessons for experts</td>
</tr>
</tbody>
</table>

Source: Huws & Dahlmann (2007, p. 26)

The purpose of descriptive case studies is to describe a new phenomenon – for example to introduce a new HR practice; the goal is not necessarily to draw scientific conclusions. In terms of outcome, their goal may be to narrow down a definition, to prepare for a qualitative study or to seek out indicators. Explanatory case studies begin
with a clean hypothesis or research question, and look for causative relationships. They may follow the results of other research studies or a secondary analysis of statistical data. They strive to describe typical cases and to draw scientific conclusions. **Exemplary case studies** present and include descriptions of best practices; it is thus important to describe the context in detail (Huws & Dahlmann, 2007, p. 28-29).

In practice, these types are not sharply separated from one another; rather, they **complement one another**, as described in the process below. Exploratory case studies provide an opportunity to create models and concepts and establish hypotheses; they are generally followed by qualitative research. It may be possible to define research questions based on this research which may serve as the bases for explanatory case studies, thereby explaining not just the links and relationships, but also their causes. These analyses, in turn then, may provide an opportunity to examine good and bad organizational outcomes, which may serve as the bases of exemplary case studies. These case studies, in a broader sense, may help shape best practices and define new policies.

According to the categorization above, the two case studies are, on the one hand, exemplary in terms of research objectives and research questions, in that they describe local practices, and the case studies may provide lessons to practicing professionals; they are also descriptive in nature, as they help add nuance to the connections described in the theoretical part or help clarify these using specific examples.

**Triangulation** may take place in connection with data, researchers, theories and methodology. Its goal may be, on the one hand, to ensure the validity of the research, or on the other hand to clarify the question of generalization. Denzin (2000) distinguishes between four types of triangulation: triangulation of data sources, when the researcher examines whether the data will remain identical in other settings; in the case of researcher triangulation, several participants examine the same phenomenon; theoretical triangulation has researchers examining the same case from different perspectives; and in methodological triangulation, one approach follows the next to ensure reliability of the interpretation.

The case studies below, related studies examining the topic specifically, the secondary analysis of the cases and the fact that the company data rely on several sources ensure
triangulation as far as methodology and data sources are concerned, enabling an analysis of the Hungarian automotive industry through two cases, from the perspective of the research questions.

This is also served by the holistic approach of the various corporate practices, which also incorporated the context; the interviews conducted with various stakeholders (employees, management) also help map out several versions of reality.

In my dissertation, I analyze two case studies, both of which focus on organizational responses to the financial and economic crisis of 2008-2009. The case of Audi Hungária Motor Kft. was definitive in that the company is both the supplier of auto parts (engines) as well as the manufacturer of final products (the Audi TT coupe); this makes it possible to examine the impacts of the crisis from several sides, and also makes it possible to examine the effects of the crisis on employees from several perspectives. The case of CabTec Kft. was useful primarily for illustrating the multitude of HR practices applied during the crisis. What is common to the local practices of the companies is that their responses to the crisis, both on the side of employees as well as the side of employers, emphasize a win-win situation. In both cases, a major solution was the introduction or transformation of flexible working hours.

The case studies focused only on the period of the crisis; they only present responses to the crisis, and do not touch on decisions and processes implemented since then.
VIII. Case Studies

In this chapter I describe two case studies and analyse them according to the research questions, the comparison of the two cases reveal the main findings of the research.

VIII.1. The Case of Audi Hungária Motor Kft. (AHM)²

The Company

Audi AG is a subsidiary of the Volkswagen group, producing premium passenger vehicles. Audi Hungária Motor Kft. was established in 1993. Audi at the time, along with the Volkswagen group, was facing a severe recession, high labor costs in Germany and an outdated production organization with an aging product range. Part of the solution was the foundation of lower-cost factories outside Western Europe. One of the main reasons for Audi to choose Hungary was the relative availability of highly skilled and cheap (compared to Germany) labor with experience in engine manufacturing (Tóth, A., 1999). At that time the company’s main role was assembling engines for the Audi TT Coupe. All parts of the engines and the automobiles were imported from the mother company in Germany and from other suppliers.

Production of engines began at the factory in earnest in 2000. Audi decided to concentrate engine production and the assembly of the TT models in Győr: with the positive environment offered by this location, the company was able to increase both its product range and the total number of cars produced. The increase in capacity allowed company management to restructure the company and to introduce an improved production system without cutting jobs in Germany (Keune & Tóth, 2001). Since then, this plant is said to be one of the most advanced and modern ones in the Volkswagen group. Since 2001, the company has operated an Engine Research and Development Center. The company continues to develop despite the effects of the 2008 crisis, having doubled the territory of its production halls in 2012 and 2013. This investment of 900 million Euros was announced in 2011. Between 1993 and 2011, the company produced more than 20 million engines.

There was a small decline in the number of employees in 2009 (dropping to 5624 employees from 5879 in 2008), but their number has once again increased since then.

²The core of the case study provided by Tóth, Á. et al., 2012., and two interviews from 2015
(reaching 7400 employees in 2011), which is expected to continue in the future as a result of the investment.

Trade union, Works Council and the Safety Committee

Labor-management relations have traditionally been good at Audi-Hungária Motor Kft.; both collective bargaining and consultations with the Works Council are deemed to be efficient. Basically, Audi is known as a “good” employer, paying high wages (Neumann, 2009: 10).

The Works Council has 13 members on the employee side, which is the maximum number. Of the 13 members, 12 were nominees of the trade union. Of the 9-member trade union leadership, six were members of the Works Council. The cooperation of the two bodies – whereby they complement one another’s rights and responsibilities – is inevitable, and the relationship between them is excellent. The company management has to solicit the opinion of the Works Council if the management is planning to modify working hours arrangements, working process and conditions arrangements, to introduce modernization of any kind and to determine annual holiday plans. In the case of privatization, retirement or rehabilitation of disabled workers after accidents, the Works Council also has the right to provide its opinion. Every six months, the employer must inform the Works Council about the financial status of the company, provide information on salaries, present a report on working conditions, working hours arrangements and the number and tasks of sub-contracting companies which work for the company.

A trade union called “Audi Hungária Independent Trade Union” operates at the company. It is not a member of the major national trade union associations. There are seven representatives in the governing body of the Audi Hungária Independent Trade Union. This trade union represents the rights of the employees, organizes special events and activities for employees in their free time, and plays a leading role in the negotiation of collective agreements with company management. Employees in need may apply for special financial support (for example social aid) from the trade union. The purview of the trade union, however, covers not only rights, but also includes significant responsibilities (such as determining the conditions for work on partial days, and approving overtime to be performed within two days).
The number of employees belonging to trade unions is approximately 60%; the number of female trade union members is between 8% and 10% on average; approximately 90% of blue collar workers and 10% of white collar workers are members. Membership numbers have been rising steadily since 2008 (3267 persons); at the end of July 2015, 6875 individuals were trade union members. The trade union provides members the following services: legal assistance, social and funeral support, organized group excursions, organized theater visits, May Day celebrations participation, Christmas gift package around December 6 for members, sweets for female members on March 8 (Women’s Day), free or heavily discounted passes for baths in Győr or Tatabánya, life and accident insurance (since 2002), health insurance (since 2012) and a membership card entitling bearers to various discounts.

The objective of the Audi Hungária Independent Trade Union is to provide its members with a secure and stable workplace, to achieve meaningful wage and salary increases and to share information on the operations of the trade union and the status of talks between employers and employees.

Another important organization is the Job Safety Committee, comprised of employee representatives. A significant majority of its elected members are trade union delegates. They caution fellow employees to make use of health protection devices; they participate in the investigations of any accidents and in determining the responsible party; they participate in determining and reviewing measures to prevent future accidents.

At the time of the crisis, and during the implementation of measures in response to the crisis, the trade union worked closely with the organizations of the mother company and its works council; they were thus able to conduct meetings aware of solutions and opportunities employed at the parent company. As a result of this, communication improved between the employer and the trade union, as managers and three employee representatives met once a week to go over the situation of the company and any necessary actions to be taken (Neumann & Boda, 2011, p.: 94).

**Flexible Working Hours**

There are three major basic types of shifts at the company (as is generally the case across the automotive industry, meaning Audi is no exception to the norm).

- 1 shift 5x8 hours per week
- 2 shifts 5x8 hours per week
- 3 shifts 5x8 hours per week

The first shift is from 5.50 am until 2.10 pm. There is a twenty-minute break in a shift, which is not paid for employees. There is 30 percent salary differential for the afternoon shift and a 60 percent salary differential for the evening shift.

On the production lines, machines and robots work 24 hours a day, 7 days a week (in 2x12 hour shifts), usually starting on January 3, with the production lines stopping only on December 31. If someone works a 5 days per week working arrangement but has to work overtime because of extra orders, the overtime can be taken as a day off when orders drop below the average and production needs fewer workers. This flexible working hours is determined in most cases by the management, but employees have some freedom as well, if they have reason to take the overtime as a day off.

The assembly lines work 6 days per week in 3 shifts. On these lines every worker works five days but can take the day off according to a time bank system, which helps predictability, accounting and enables both the employer and employee side to have some flexibility. Some workers take Mondays off, others Tuesdays etc., so that every worker works 5x8 hours per week, while the assembly lines run 6 days per week, 24 hours a day.

Before the crisis, engineers who worked on the production lines worked between 5.50 am and 2.10 pm. They had a break of 20 minutes, which was not paid by the company. If they had overtime, they could take it anytime. So the difference between them and blue collar workers was that they had more flexibility to take their days off. Other white collar workers’ working hours were between 7.00 am and 3.20 pm. There was a twenty-minute break, which was not paid by the company. There was a third type of working hours arrangement for white collar workers, which afforded the highest degree of flexibility. These employees had to work 8 hours and 45 minutes per day, with the compulsory core working hours from 10.00 am until 2.00 pm. Their compulsory break was 45 minutes, which was not paid by the company.

In the case of white collar workers, their department has the right to decide in which working hours arrangement the employees want to work. The only exceptions are the engineers working on the assembly lines. It is another example of flexibility in
arranging working hours. If the majority of the department decides to have their regular working hours between 7.00 am and 3.20 pm, then all the employees of the department have to accept the decision of the majority.

If a white collar worker has to work overtime, the maximum number of days they can take off is six in a year. If the employee has 20 hours of overtime in a month, they get two days off the next month. A maximum of 15 hours overtime can be carried over to the next month each month. This means that if the employee does not want to take their days off, then they have the chance to work 15 hours less the next month. The taking of these hours is flexible.

In the case of blue collar workers, the working hours arrangement gives the greatest degree of flexibility to employees working on the assembly lines. In the case of white collar workers, the third type of working hours arrangement gives the greatest freedom for the employees to personally arrange their own working hours.

*Interventions during the Crisis*

The reason for changes in the working hours arrangements was that the demand from the automotive industry decreased rapidly from one day to the next at Audi Hungária Motor Kft. as well. As Audi Hungária Motor Kft. is an automotive industry supplier (engines) and end producer of the Audi TT Coupe as well, it was faced with an unexpected, rapid decline in the number and quantity of orders from automotive industry partners and consumers alike.

To react to the situation, the management set out the strategic aim of saving 100 percent of the jobs of full-time core employees of Audi Hungária Motor Kft. To reach these targets, the working hours were rearranged both for blue- and white collar workers, and this was declared in the collective agreement. They had to modify the intensity of production, which is in most cases a very complex task as there are technological constraints such as the optimal speed of production, assembly lines and robots. The starting and stopping of the production lines is not possible in a hectic way, as it would only increase operational costs.

At Audi Hungária Motor Kft., company management was supported by the works council and the trade union. The aim of their representatives was to not lose any of the full-time core workers of the company. As we will see, all instances of interventions
were made in accordance with this main objective. The management emphasized in the interview that it would have been a disaster for them to lose any of their own trained workers. Even in a low-wage country it takes much more money to train new workers and to establish trust and loyalty between the employee and the employer than to give them compensation during the crisis.

Audi management implemented a three-year-long time banking system, kept the level of salaries and guaranteed job protection until December 31, 2011 in the collective agreement. The time of the crisis was a very stressful period for all workers, so having more options to take days off and have a written guarantee in the collective agreement until the end of 2011 for job protection was a motivating factor for them. In the case of a reduction of working hours, the Labor Code only prescribes an amendment of the individual employment contracts, yet the company chose to set this change out in a collective agreement (Neumann & Boda, 2011, pp.: 92).

The 6 day workweek for blue collar workers was reduced to 5 days. As most of the blue collar workers were trained to be able to perform multiple types of work phases, this problem could be solved easily. Another measure was that the employment of 300 workers of a sub-contracting company was terminated, and the tasks of the sub-contracting workers were performed by the functionally flexible full time core workers of Audi, who had to be delegated to these sections from the assembly lines. The contracts of 400 workers were not renewed after they expired, and through this measure, logistics were insourced to the company once again (Neumann & Boda, 2011, pp.: 83). These workers’ jobs were also taken by the functionally flexible full-time core workers of Audi. 50 workers retired and their positions were filled by other core Audi workers. Altogether 1100 full time core Audi workers’ jobs were protected, which was 19.5 percent of the employees.

In 2009 there was no salary increase for either blue- or white collar workers. Instead, all employees got 10 extra days off for the whole year. These days had to be taken off in a well-planned order, determined by the company. (In this case, however, in accordance with the legal regulations: for instance, employees had to be made aware 30 days in advance about the mandatory scheduling of their leave.) The other change in fiscal compensation was that the annual premium was not paid out in full to employees. As compensation, all workers were given 12 extra days off, which had to be taken off until December 31, 2011. Altogether, all employees were given 22 extra days to take off.
when needed. These extra days had to be taken off generally in a well-planned order determined by the company, mostly around holidays or when orders were so low that there was no need for production. These flexible working hours arrangements (especially the extra 22 days off) were calculated in a 3 year average (which was made possible by temporary provisions of the Labor Code). So if someone worked less than the average in 2009, then they had to work more days and have fewer holidays in 2010 and 2011, mostly at a time when – because of the increase of orders – production had to be increased. (The trade union leader interpreted this decision as a measure which essentially made employees bear the costs of stopping production.) The company management declared that if not all of the extra days are taken off during the crisis, the extra days left over would be compensated as a bonus and would be built into the salary. None of the workers lost any of the premiums in these three years. This is a good example of a flexible management strategy, which helped create a “give and take” situation. If all the extra 22 days were taken off and yet more days should have been taken off because of a lack of orders, the company organized special trainings for the employees. The aim of the special trainings was to increase employees’ functional flexibility for the future.

As a kind of flexible working hours arrangement had existed before the crisis at the company, the experts had experience reacting to modified market demands with the flexible working hours arrangement to protect full-time core workers’ jobs. Audi Hungária Motor Kft. developed its own solutions as far as a system of flexible working hours was concerned; it did not simply adapt solutions employed elsewhere by the Volkswagen group.

From the employer side, the win situation is that all core worker jobs were protected. The employees’ loyalty to the company increased and the volume of production has also increased since then. The employee side also wins as work-life balance was optimized with the implementation of the special system of taking days off. The extra 22 days off were a compensation for the stagnation of salary and the decreased premium. As the days off had to be taken mainly when the company said, and were calculated for a 3 year average, it gave some flexibility and freedom for the employer and employees as well. All full time core workers received their regular salary, which is above the average in the region, so none of the workers had to find a second job. Their work-life balance was optimized too, as during the stressful time of the crisis they had more days to take
off to relax. It improved work-life balance in another way as well. The employees did not have to worry about losing their jobs, as the management declared the protection of the jobs in the collective agreement for three years.

All together the implementation of the modified flexible working hours arrangements both for blue- and white collar workers, combined with the loyalty of the workers, resulted in the fast recovery of the company, the increase of productivity and the company becoming stronger and more competitive than before the crisis.

VIII. 2. Analysis of the Case of Audi Hungária Motor Kft.

The case of Audi Hungária Motor Kft. is one of special significance, because the company is not only an automotive supplier, but is also a manufacturer of finished products (the Audi TT Coupe); the questions posed in the dissertation may therefore be examined from several angles.

Strategy

In the management of the crisis, the main goal was to retain the employees working full time positions (a total of 1100 persons, representing 19.5% of the entire labor force). In the case of Audi, in addition to cutting the fixed costs of production (introducing a five-day workweek), the key measure taken was to reduce the number of employees; in other words, the company pursued what was primarily a strategy of rationalization (Sisson & Artiles, 2000). The working hours agreement, in place for three years, was a unique solution adopted independently; it was not the VW Group which had determined the path to follow.

The HR strategy was defined by the motto, “Good employer offering good pay”: in other words, the key factor of retention was security of wages and jobs. Retaining wages that were higher than the industry average was a significant draw for employees of the company. Treating employees as resources is a characteristic of soft HR strategies; in the case of non-essential workers, however, the general approach is one following a hard strategy, focused on performance and based on control. The bargain is considered integrative, because for essential workers the above are certainly regarded as advantageous solutions. Participation in the decision-making process is also present by institutionalizing meetings between management and employees. Neither the interviews
conducted nor the case study analyzed made it possible to examine these meetings or the roles the various actors played in them. (The case study did not contain information applicable to this, and interview subjects during the interviews were unable to recall the process itself very clearly.) Employees, as a result of the measures taken, opted for a strategy of loyalty, rather than voice or exit.

The Substance of the Agreement

The company had introduced a system of flexible working hours even prior to the crisis; in addition to multiple shifts, the scheme was characterized primarily by the following:

- Blue collar workers were able to use overtime worked to take leave, but in the majority of cases, it was up to the employer to decide when this leave could be scheduled.
- White collar workers were able to decide freely when to take their leave from overtime worked (a maximum of six days a year); 15 hours could be carried over to the following month.
- In the case of white collar workers, the various sections were able to decide what hours they wished to work (choosing from among three options).

In the collective agreement, the company committed to keeping wages unchanged and guaranteeing employment for three years (through December 31, 2011). The company created a system of time banking for three years, and instead of a six-day workweek switched to a five-day workweek. From the employer side, the measures were motivated by a desire to reduce labor costs (providing leave instead of bonuses, freezing wages and lay-offs) and retain essential workers; from the employee side, it was clearly the latter which served as the key driver.

Factors which made this agreement possible:

- Workers trained to perform several processes
- Lay-offs
  - In the case of a subcontractor, the employment of 300 persons was terminated
  - When the contracts of 400 employees expired, their employment was discontinued; the logistics function was brought back within the company
  - 50 employees retired
Financial measures

- No wage increase in 2009; instead, each employee was given 10 extra days of annual leave (taking the days was subject to company decisions, but employees were made aware ahead of time, and tended to take their days around the holidays)

- The annual bonus was not paid out to employees in whole; instead, they received 12 extra days of annual leave which had to be taken by December 31, 2011
  - The above conditions were applicable for a three-year average (decisions to allow leave to be taken or for overtime to be worked were based on the average number of hours worked); the time not taken as leave was paid out as a bonus (following 2011).

- When there was a need for granting even more days off at certain times because of dropping demand, the company arranged for training to be delivered on those days, thereby also increasing functional flexibility.

In general, agreements reached during the crisis tended to include the freezing or cutting of wages, or increasing the flexibility of working hours and work organization, in exchange for guaranteeing the security of jobs. It was no different in the case of Audi. It must be mentioned that the measures were clearly aimed at retaining essential workers; essential workers were not affected by lay-offs. A combination of employer-friendly solutions (not paying overtime or cutting the workweek) and employee-friendly solutions (increasing the number of days of annual leave) was applied.

These measures served to increase the loyalty of the key labor force; stability and predictability played major roles.

Reaching the Agreement

The company has both a trade union as well as a works council. During the talks, the goal of all parties was to retain essential staff. The Hungarian trade union worked closely together with the interest representation groups of the mother company, which also helped it gain additional information. Introducing regular weekly meetings between representatives of the management and employees must be highlighted, and was considered a new element. Incorporating the agreement as a collective agreement was a
development which brought security and predictability to both employees as well as the employer.

Conclusion
In the case of Audi Hungária Motor Kft., the cooperation of the works council, the trade union and the management – as well as their shared strategic goal – made it possible to mitigate the negative effects of the crisis, primarily by following a strategy of rationalization.

In terms of the substance of the agreement, it must be mentioned that this was not a solution covering the entire company group. The measures were implemented based on the decision of local management. The agreement was also laid out in a collective agreement, which provided employees with an extra measure of stability and security. There was no innovation as far as the substance was concerned: the shortened workweek, the introduction of the working hours time bank, increasing internal flexibility, lay-offs and insourcing may all be considered types of standard solutions, in exchange for which core workers received guarantees of employment and wage guarantees.

In connection with the process, the introduction of regular weekly meetings must be highlighted, which was certainly considered a novelty at the company. The approach of the management – viewing essential workers not simply as cost factors – helped boost loyalty and commitment.

The contents of the agreement were influenced not so much by the position of the company in the global supply chain but more by the HR approach applied; this was determined through the dialogue institutionalized at the company.

VIII.3. The Case of CabTec Kft., Kecskemét

The Company
CabTec (NACE Code: 2733) is a Swiss company established in 1973. The company operates two plants in Hungary: one in Kecskemét and one in Szekszárd. The Szekszárd plant was opened in 1992, and the Kecskemét plant started production in 1996. The headquarters of the Hungarian plants is in Kecskemét, where the research was also

3 Based on Tóth, Á. (2012 b).
carried out. Kecskemét is 85 km from Budapest, in the middle of Hungary, in the Great Hungarian Plain. This region is traditionally an agricultural area. Since 1989, however, the region has seen more and more industrial investments, especially from the automotive industry, such as Mercedes Benz, Knorr-Bremse or CabTec. The plant in Kecskemét has a 5 600 m² production hall on a 10 000 m² area.

CabTec produces more than 10 000 products, including many products (conductors, cables, and interlocking devices) for automotive industry companies such as Porsche, Dürr, Bosch, Lear, Phoenix Mecano and Magna. 33% of its products are made for the automotive industry, mainly in Kecskemét.

The main sections in the production lines are the crimping and cutting units, the molding department and the assembly lines. The research was focused mostly on blue collar workers employed at these units. At these sections, production is fully automated, so the workers have to control the proper working of the machines. This provides the company the opportunity to employ workers with disabilities at these production units. The number of disabled workers is between 5 and 10. Workers at these units are trained to be able to handle all the machines, i.e. the workers at these production units are functionally flexible, which was a determining factor and advantage when working hours systems were rearranged in response to the crisis.

Another production line where the research was carried out is the assembly section. The assembly lines are partly manual and require workers as the cables and conductors have to be assembled manually. This work needs less physical power, but high precision, which is why most of the workers are female on the assembly lines. Assembly line workers also have been trained for different processes of the assembly process, so they are also functionally flexible.

In 2012, the number of workers at the Hungarian plants was 338, representing an increase since 2009, when the company employed 310 workers. When it has a high number of orders, the company employs an extra 200 workers for a fixed period of time until the orders are fulfilled. This was the case a few months before the interviews were conducted. Out of the 338 employees, 10 percent (30 people) are women with a young child or children. For the company these workers are important, so a special shift was created for them, which will be described later.
Works Council

There is no trade union representation at the company. The employees are represented by the Works Council, which has seven members. The rights and tasks of the Works Council at CabTec are to negotiate with the management about changes in working hours arrangements, working process or working conditions. According to the Hungarian Labor Law, the company must inform the Works Council every six months about the financial status of the company, provide information on salaries, and present a report on working conditions, working hours arrangements and the number and tasks of the sub-contracting companies which work for the company (these tasks were mentioned and highlighted during the interviews). There is no company level collective agreement, but individual personal contracts exist between the management and the employees.

The Flexible Working Hours Arrangement

CabTec is a family- and employee-oriented company mixing some types of flexible working hours arrangements. The flexible working hours arrangements exist in the following fields: average workweek over a two month working period for blue collar workers, flexible start-end times for white collar workers, special shifts for disabled workers and special shifts for women with young children for both blue- and white collar workers.

According to working hours arrangements concerning blue collar workers, before the crisis there was a 2 month-working hours time banking system, which meant that all workers had to work 40 hours per week over a two-month average. Sometimes the workers had overtime in a month, but they could be compensated with days off or an extra bonus paid for the overtime. If an employee had to work overtime, the worker could take a maximum of one day off; all additional overtime hours were paid out as a bonus in the salary. This meant that if the worker had 12 hours overtime in a month, out of the 12 hours 8 hours could be taken as a day off in the next month, and the remaining 4 hours were paid out as a bonus by the company. The overtime depended on market demands. Company management agreed with the Works Council that it is not compulsory for a worker to work overtime if they are not willing to or have other
personal things to do after their official working hours. If overtime is needed the worker is informed about it in advance, so both the employer and the employee sides can plan and expect their future working hours.

The crimping and cutting units worked in two shifts. The morning shift was between 6.00 am and 2.00 pm and the afternoon shift was between 2.00 pm and 10.00 pm. All other production units, such as the molding department and all the assembly lines, worked in one shift between 6.00 am and 2.00 pm.

Every blue collar worker had a 30 minute break during the shift (15 minutes in the morning, 5 minutes mid-morning and 10 minutes for lunch), out of which 20 minutes were paid and 10 minutes were not paid in the salary by the company. It is not typical in Hungary that any or some parts of the breaks are paid by the company.

This new model, even before the crisis, improved predictability and transparency both for the employer and employee side, and gave an opportunity for an optimal and individualized way of taking days off. The worker can take one more day off if he/she has overtime from the previous month. The interviewees emphasized that this model helps increase individual work-life balance, as the workers can get an extra day off, which can be predicted and calculated in advance both from the employee and the employer side. As the 8 hours has to be worked in advance, it has no negative effect on the productivity of the company. If the worker has overtime and knows when they want to take the day off, this is communicated to the head of the department and, depending on the next month’s orders, the management accepts the request for having the day off. So the company has time to rearrange workers’ schedule in advance.

**Workers with children** can start their work at 8.00 am instead of 6.00 am. They do not belong to a special department, but simply come later and finish later. That is the difference compared to the original shift, which starts at 6.00 and finishes at 2.00 pm. 80 percent of the total labor force (338 employees) are women and 10 percent of the women (30 employees) work this type of special shift. The working hours arrangement for women having young children is a highly positive fact, as they work in a daily shift between 8.00 am and 4.00 pm. The Works Council representative emphasized the importance of this special shift, as it helps mothers improve work-life balance. These workers have the chance to take their children to the kindergarten or to the primary school in the morning and then to arrive at the workplace in time, and to pick the
children up before 5.00 pm, which is usually the closing time of kindergartens in Hungary. The existence of this special shift was emphasized by the employer side as well. The management also sees the positive effect of the scheme on everyday work. The management believes that workers can work more effectively and concentrate better as they need not deal each day with making arrangements for taking the children to school and picking them up in the afternoon.

_Disabled workers_ perform the same work as other workers, but before being employed they undergo a medical test, which determines – based on the doctor’s permission – at which unit they can be employed. Their shift also starts at 6.00 am and finishes at 2.00 pm. By contract, disabled workers officially work 5x7 hours per week; in reality they work 8 hours per day (the same as the other workers), receiving 2 days each month, which can be used for going back to the doctor for regular check-ups (in most cases disabled workers have to see their doctor every two weeks), or can have free time with their family. For them this is an improvement of work-life balance.

_White collar workers_ have to work 160 hours per month. If they have to work overtime, it is not paid and cannot be taken as a day off. Everyone has to work between 8.00 am and 2.00 pm; these are the core working hours. Starting work earlier or finishing later is optional and flexible. A truly flexible working hours arrangement exists in the case of white collar workers.

**Interventions during the Crisis**

The reason for the changes in the working hours arrangement was that demand from the automotive industry decreased rapidly from one day to the other. As CabTec is an automotive industry supplier (tier 2), it was forced to face an unexpected and fast decline in the number and quantity of orders from automotive industry partners. So the management of the company sought to protect all core employees from being laid off. The management also decided to modify the product range. In order to manage to do this, discovering new markets and securing new contracts with new partners became key points of the company strategy. The management also decided to broaden the product range in order to be more competitive and to be able to increase stability and
become less dependent on the automotive industry. Some of the products were modified so that they may be sold outside the automotive industry to other market actors. *CabTec company management was supported by the Works Council* in its aim to not lose any of the full time employees of the company. As we will see, all the interventions were made in this spirit. The management emphasized in the interview that it would have been a disaster for them to lose any of the workers they had trained themselves. Even in a low-wage country it requires much more money to train new workers and create trust and loyalty than to give compensation in the time of a crisis to core full-time employees. The employee side also took it as a priority to retain their jobs, as at that time the unemployment rate in Hungary was over 10%, and there would have been little chance to find new jobs. We can see that although the motivations of the employer and employee side were different, the aim was similar. Both sides admitted that although they had to compromise, the final result is an absolute *win-win situation* for them.

They had to modify the intensity of production, which in most cases is a very complex task as there are technological constraints such as the optimal speed of the production line and robots or the molding process of polymers. The starting and stopping of the production lines is not possible in a hectic way as it would only increase operational costs.

*To reach these targets*, working hours were rearranged both for blue and white collar workers. As a type of flexible working hours arrangement had existed before the crisis, recovery was fast for the company.

*The cutting of working days* was the first step to optimize production in line with market demand. With the reduction of working days, the first aim was to reduce operational costs.

The period of the modified working hours arrangement was between March 9, 2009 and May 30, 2009, for three months. At every unit the modified working hours were 4x10 working hours per week, so all blue collar workers received their full salary at these units. The crimping and cutting units’ two-shift system was modified to a one-shift one. Although the number of working hours did not change in total, the 4 day working system had its effects both on productivity and work-life balance and health. Although the motivation of the 4x10 hours working hours arrangement was rather less production, the longer working days demanded more concentration. The HR manager emphasized that working 10 hours instead of 8 hours daily requires much more concentration and is
more exhausting on the assembly lines, where the jobs are in part manual. The employees performed the job with higher concentration not only because of the extended working hours per day, but also because they did not want to lose their jobs due to accidents.

The new rule on breaks (which continues to be in force) was introduced at the time of crisis. Every blue collar worker has 30 minutes break during their shift, out of which 20 minutes are paid and 10 minutes are not paid in the salary by the company. This extra financial compensation can be regarded as an example of a give and take philosophy from company management. They gave more money, but wanted the workers to work 4x10 hours per week during the critical month of the crisis. So the break system and its financial compensation was also rearranged, which is the biggest achievement of the Works Council; a win for all employees.

Employees with young children had 4x8 working hours per week. Although there was a reduction in their salary, they had one extra day off, which could be used to spend more time with the family. However, in reality, many of these workers chose to take on a second job or worked in their family greenhouses to earn some extra money. (Kecskemét is an agricultural area in the heart of Hungary).

The period of the modified working hours arrangement was between March 9, 2009 and September 28, 2009 for white collar workers. White collar workers’ working hours were modified to 4x8 working hours per week. However, everyone worked as before (or more) even on Fridays, when they just received a small amount of their daily salary. Not only did they have to perform their usual weekly tasks, they were also tasked with broadening the product range, finding new partners and signing new contracts. The overtime could have been taken off, but no one chose this option. Only 6% of the salary of the 5th day of every week was paid to white collar workers. If there were no tasks to do, the company organized language courses and special trainings for white collar workers relevant for the specialization of the employee. These trainings were held on the 5th day of the week.

In the case of salaries, there was a drop only for white collar workers. The management emphasized that the implementation of flexible working hours arrangements cannot be effective if only blue collar workers’ working hours are modified. The management
believes that white collar workers play a key role in the implementation of the modified working hours system.

White collar workers had the important task of determining how and when and to whom to communicate the modified working hours arrangements and rules, which is a very responsible task in a situation and period full of risks and unpredictability. Their other main task was to find new partners and restructure the product range. This extra effort needed a lot of concentration and overtime, which was not financially compensated for them during the period of the crisis. The success factor was loyalty to the company, as white collar workers had to work on the fifth day of the week, but were paid just 6 percent of their daily salary on that day.

All the changes in working hours arrangements and the aims of the management for solving the problems caused by the crisis were communicated to the employees daily in the beginning. Later, as the company was getting out of the period of decline, the management communicated the new or modified rules when necessary.

The Effects of the Interventions during the Crisis

A negative effect of the modified system was that employees became less creative, as fewer new ideas were received from them regarding everyday work to the suggestion boxes. These ideas are about how everyday work, the working conditions and work processes could be enhanced. The data show that 2009 was a very bad year in creativity. In 2008, 73 ideas were submitted; in 2009 only 30 were, but in the next years the number rose again. The possible negative effect of the drop in creativity is that the production process was not optimized to improve working conditions and productivity during the crisis.

Based on the answers from the leader of Works Council and the HR manager, the main reason for the decline in creativity in 2009 was that employees concentrated more on their own work to avoid mistakes and accidents, primarily in an effort to avoid being laid off.

There are no absolute numbers on absenteeism, but the Human Resources leader noted that there was a decline in absenteeism during the period of crisis. None of the employees wanted to leave the company. Everyone worked with maximum effort. There was a 25% decline in on-the-job accidents in 2009 compared to 2008.
Employees became *socially responsible for one another*, an attitude which has been embedded into the company culture, norms and attitudes since. Employees helped each other when someone became exhausted because of working 10 hours per day in an effort to avoid mistakes and accidents. The heads of the units were more sympathetic and listened even to their workers’ personal problems; they also informed them more regularly about the future perspectives of the company and the employees.

The results of the interviews and the data provided by the company show that although in the first month after the start of the crisis there was a decline in orders from automotive industry partners, the company had to maintain the modified flexible working hours arrangement only for few months. Even during the most critical period, when the modified working hours arrangements were new for all the workers and no one could estimate their effects on productivity, *the target was reached* so there was no decline in production.

The two special shifts for women with young children and the shift for disabled workers may also have had a positive effect on productivity, but there is no data from the company to prove this through statistical analysis. The negative effect of the reduced working hours during the crisis is that these workers got paid less, which could have motivated them negatively.

However, the possibility to take days off when needed, and the extra two days off for disabled workers, can increase productivity, as with this time banking system, both the employer and the employee side can plan monthly working hours better, so the system becomes more transparent and predictable.

The functional flexibility of workers also increases productivity. The number of workers at a unit can be adjusted at any time in order to produce the necessary number of products ordered.

The employee-oriented management philosophy of protecting all jobs during crisis, creating better working conditions and giving more flexibility in taking days off has also had a positive effect on productivity. The experience of the company in flexible working hours arrangements was an additional advantage. The management was able to react to modified orders quickly, so the company only had to use the modified working hours arrangements for three months in case of blue collar workers and for seven months in case of white collar workers.
The company decided to introduce special health care programs, which indirectly could also have had a positive effect on working conditions, health and work-life balance. The main goal was to reduce stress during the period of the crisis. Today the aim is to reduce absenteeism and working accidents. To this end, the following steps were taken:

- Informative graphics posted in the entire premises of the company regarding health care and environmental protection topics.
- A “fruit day” each month, when all employees have free access to healthy fruits provided by the company.
- The company covers the costs of the flu vaccine.
- A “Stop Smoking” program run by the company.
- Food and drink vending machines provide only healthy foods and soft drinks.
- Not only the canteen, but the open-air smoking area was also renovated and made more comfortable for employees to enjoy their breaks.

VIII.4. Analysis of the Case of CabTec Kft.

Strategy

As a result of the crisis, the number and quantity of automotive industry orders in Europe saw a sudden drop. CabTec, as a second-tier supplier, was faced with reduced demand for its products. The key strategic goal of the management was to weather the crisis and to retain its highly trained labor force.

Rationalizing production, and transforming it on the side of both output and input, was one possibility in terms of quantities (e.g. production quantity, number of hours worked) as well as quality (e.g. service level, product quality, level of training of employees). (Oeeij et al., 2012.) In the case of CabTec, in addition to reducing fixed costs (introducing a four-day workweek) and cutting wages (in the case of white collar workers and those with small children), the company also sought to expand to new markets and new partners, as well as expand its product range; in other words, in addition to rationalization, a strategy of adaptation was also implemented (Sisson & Artiles, 2000).
An examination of the HR strategy reveals the following conclusions. Despite the fact that the mother company chose Hungary as the location of this unit in order to benefit from low costs of labor, the HR strategy included, in addition to a performance-centered approach, elements more typical of a soft approach, which focused on employee working conditions and development. The organizational culture which becomes clear through responses provided to the crisis (e.g. that each employee must share the burden of enduring the drop in demand resulting from the crisis and must help find new solutions), extensive communication, efforts at win-win situations (striving for integrative deals) and training opportunities for white-collar workers all support this observation. Involving lower-level management in communication was also a factor which served to bolster commitment. The introduction of the measures was clearly facilitated by the system of working hours introduced prior to the crisis. The HR approach of the company, then, is one based on reciprocity, despite the fact that employees were not involved in decision-making processes (only in the communication of the measures). Several measures by the management to improve morale and cut stress, as well as the handling of overtime and days off, helped increase loyalty and commitment, helped offset the lower demand resulting from the crisis and helped find new paths. As a result of the measures taken, employees chose a strategy of loyalty over voice and exit.

The Substance of the Agreement

The responses to the crisis, and measures introduced, were determined to a great extent by the technological background (operating the machinery and the adjustability of the equipment), as well as by HR practices applied to date:

- The machine lines were fully automated, which enabled the company to employ persons with disabilities. The assembly lines were partially manually operated, requiring a high degree of precision; the majority of employees working the assembly lines were female. The cutting and bending units worked two shifts.
- Employees are trained in all processes, enabling the company to fully utilize the benefits of functional flexibility. When there was a need to expand production capacity, the company was able to add another 300 persons to the production line as fixed-term employees.
The company had introduced a flexible system of working hours already prior to the crisis; for blue-collar workers, there was a system of two-month working hours time banks (meaning that the 40 hours to be worked each week were calculated as averages over two months), and white-collar workers were able to start and finish work flexibly. Disabled employees and employees with small children were allowed to work special hours.

Blue-collar workers: anyone who did not wish to work overtime did not have to. Overtime was announced ahead of time. One extra day of leave could be taken each month (it had to be reported ahead of time to, and approved by, the management); remaining overtime was paid out by the company.

White-collar workers: overtime was neither paid out nor could it be taken as time off. Employees worked in a system of core hours, and were free to choose the time they start and finish work. They were required to work an average of 160 hours a month.

The model applied and introduced prior to the crisis helped improve predictability and transparency, and also enabled employees to take their leave in accordance with their own wishes, to create their own work-life balance.

The strategic response to the crisis – retaining jobs, seeking out new markets and partners and expanding the product range – included the following solutions in practice:

- Reducing the costs of labor (white-collar workers received only 6% of their wages on the fifth day; employees with small children worked four-day weeks by getting an extra day off while having their wages cut in proportion to this)
- Restructuring working hours: introducing a shortened workweek (4 days)
  - for blue-collar workers: 10-hour workdays for three months
  - for white-collar workers: 8-hour workdays, receiving only 6% of their salary on the fifth day, for a seven-month temporary period
  - for white-collar workers: organizing training courses (language courses, special training relevant for their duties) on Fridays
- For blue-collar workers: the company paid out twenty minutes of their total break of thirty minutes (breakfast break: 15 mins; mid-morning break: 5 mins; lunch break: 10 mins)
- No one who did not wish to work overtime was required to do so.
• The introduction of a healthcare program aimed primarily at cutting stress.

In general, agreements during the crisis included the freezing or cutting of wages, and increasing the flexibility of working hours and the organization of work, in exchange for the security of jobs. CabTec was no exception to this trend. To increase flexibility, the company employed a combination of employer-friendly solutions (not paying overtime; shortened workweek; one shift) and employee-friendly solutions (freedom to choose days off, paid breaks; training).

From the side of the employee, the following were the positive aspects of the measures:

• In the case of blue-collar workers, the ability to take days off in a relatively flexible system contributed to a better work-life balance, and empowered employees by granting them decision-making authority.
• In the case of blue-collar workers: partial payments for breaks, and their scheduling.
• In the case of blue-collar workers: keeping wages unchanged.
• In the case of white-collar workers: the opportunity to take part in training courses.
• More days off.
• The impact of healthcare programs.
• Through daily communication, employees’ sense of insecurity was lowered; information flowed better and employees knew exactly what to expect.
• Announcing overtime ahead of time served to increase transparency, and employees could prepare appropriately in advance.

Negatives to mention from the employee side:

• Seeking out new markets and partners, expanding the product range and communicating changes required greater concentration and more overtime on the part of white-collar workers.
• In the case of physical workers, ten-hour workdays in themselves required a high level of concentration, thereby increasing stress.
• In the case of white-collar workers and employees with small children: lowered wages and, in the case of the latter, the necessity of securing a second job.
• The fear of lay-offs, which increased stress.
Positive aspects of the measures from the employer’s side:

- Cutting the fixed costs of labor and production.
- A higher level of productivity on the part of employees (same amount of work in less time or as a result of lower wages).
- Seeking out new partners, expanding the product range.
- Increased employee loyalty and commitment.
- Lower rates of absence.
- Fewer accidents.
- The involvement of not only blue-collar but also white-collar workers in the search for a solution and the management of the crisis fostered a sense of “we are all in this together” at the company, which played a positive role on the organizational structure.

From the side of the employer, one negative trend was decreasing creativity, which made it more difficult to optimize work processes and working conditions.

As far as the content of the measures is concerned: the greatest achievement of the works council was the partial pay-out for breaks and the introduction of non-obligatory overtime.

**The Process (The Talks and the Introduction of the Measures)**

For CabTec, I did not obtain information as far as the processes of the talks, or the various rounds of talks, were concerned. The company has no trade union, and thus lacks a collective agreement as well; the works council is responsible for interest representation. From the interviews, one may conclude that the objectives of the employer and of the employees were identical, with both focusing on the retention of skilled workers. According to what was shared in the interviews (stated objectives), this was motivated on the part of the company by the costs of training employees and establishing their loyalty, while on the side of the employee, the motivation was the desire to keep their jobs. Both parties spoke of compromise solutions, which also supports the notion of cooperation. On the side of the management, the needs to cut costs of labor, to make working hours and employment more flexible, to retain essential workers and to maintain their motivation drove the desire to reach an agreement, while on the other side the main consideration was to avoid unemployment. As far as the
process of the talks is concerned, there was no data to suggest that any kind of innovation was implemented.

As far as the process was concerned, in the case of CabTec, delegation and participation proved essential in communicating the measures and disseminating them. Once the management had made their decision on specific measures, they left their communication (mode and timing) to lower-level managers. As a result, employees received information from their supervisors daily once the measures were introduced or later when there were any changes. This helped ensure that changes are accepted, that employees are able to identify with them and that the staff was kept motivated. In terms of communicating the measures this was a new element on the part of the company, which shared information and knowledge about the processes, and empowered lower-level managers to take action. This kind of transparency and predictability is a defining factor in the process of managing change.

A further positive effect of the measures was in changes to organizational culture, norms and attitudes. To avoid mistakes and prevent accidents, employees helped one another out when one of them became exhausted as a result of the ten-hour workdays. The heads of the various units became more sympathetic to their subordinates and were willing to listen to their complaints.

**Conclusion**

At CabTec Kft., the cooperation of the works council and the management, as well as their shared strategic objective, made it possible to mitigate the negative effects of the crisis. In terms of the substance of the agreement, the partial pay-outs of breaks and the non-compulsory overtime may be considered unique elements or novelties, and may even be considered innovative solutions both as far as the company itself and the broader context are concerned. The approach of the management – treating employees not only as cost factors – facilitated an increase in loyalty and commitment, and the reinforcement of the organizational culture and norms.

In terms of the process, the involvement of lower-level management in the dissemination of decisions and in participating in these processes provided them with a freedom to take action, along with information and an awareness of the processes. It was not, however, linked to any kind of reward (not even in the case of white-collar workers in connection with new markets, partners and products), even though this latter feature is one important characteristic of high-involvement work systems.
The contents of the measures, and the process for their dissemination, were influenced not so much by the position of the company in the global supply chain but more by the HR approach applied and by partial involvement.

**VIII.5. A Comparison of the Two Case Studies**

In this subchapter, I will highlight the similarities and differences between the two cases discussed above. I will analyze the reasons why they may be considered exemplars as well as the extent to which they add nuance or further details to trends and facts uncovered in the analysis of the literature. I will also discuss what opportunities for further research are available as far as the research sample is concerned.

Considering the dual character of the Hungarian automotive industry (foreign-owned multinational companies and similarly foreign-owned suppliers connected to them, alongside Hungarian small and medium enterprises), both of the companies are foreign-owned. The German and Swiss ownership of the two companies defines not only the organizational culture, but also the attitude of the management to employees, as well as the role and position of social dialogue within the company. (It would be worthwhile involving companies with different ownership backgrounds in the research, and perhaps ones with entirely different backgrounds reflecting the variety of capitalist systems in the world.) While Audi is both a supplier and the manufacturer of finished products, CabTec is a second-tier supplier as far as its automotive parts are concerned. By number of employees, Audi is a large corporation, while CabTec is more akin to a medium-sized enterprise.

It is important to note that interview subjects considered the measures taken in response to the crisis, as well as the agreements concluded, as win-win situations, on both the employer and the employee side. We may describe them as integrative bargains – i.e. the sample includes only positive cases. There are differences, however, in the strategies underlying the measures introduced, as well as their content, and in the processes of the negotiations and the introduction of the measures.
In response to the crisis, both companies set out as their objective the retention of essential workers; in the case of CabTec, an additional priority was to seek out new markets and to expand the company’s product range.

An examination of the HR strategies of the companies shows that in the case of essential workers, the management in both firms opted for a soft approach of the HR strategy; this views employees not only as cost factors, but also as an important source of the company’s competitiveness and resources. It is important to note that the Audi case study also features the other side, in the case of borrowed and lesser-trained employees.

The cases do not confirm the correlations laid out in the literature, which maintains that a company’s place in the global supply chain is a significant determining factor of the company’s HR strategy.

As a result of the crisis, both companies considered it a goal to retain jobs (in the case of core workers); the companies, however, took different approaches to maintain the loyalty of employees. While in the case of Audi this was done through the provision of wages which were considered high in the industry, at CabTec the main retaining forces were employee-friendly measures by HR. Thus, in one case it was social dialogue and salaries which were critical, while in the other it was the EEM strategy (and the related organizational culture as well as the introduction of a comprehensive healthcare program). It is worth highlighting that in the latter case, the most significant result achieved by the works council led to the relative increase of wages (not considering the reductions stemming from the changes to working hours), in a way unique across the industry, by partial pay-outs for breaks.

Audi has a company trade union as well as a works council; CabTec has a works council. The legal purview of the two types of representational bodies is different. The trade union at Audi is in close contact with the trade union at the parent company, which shares information and knowledge about events in Germany and changes taking place there.

As far as the content of the agreements reached during the crisis, there are a number of similarities. In addition to cutting fixed costs, it was the implementation of a flexible system of working hours, a time banking system and the functional flexibility of
employees (as well as related training courses during the crisis) which played a key role in both cases. While, however, at Audi the time banking system devised primarily favored the employer, in the case of CabTec, this measure was one of several tools introduced to help create better work-life balance. At CabTec, the joint sharing of burdens by white-collar and blue-collar workers was an important element, while at Audi, it was primarily blue-collar workers who bore most of the burden. At Audi, the insourcing of the logistics function was also an important development, which made it possible for several other companies to retain their essential employees during the crisis.

In terms of the process of the talks and the dissemination of the results – the communication strategy – in the case of Audi it was the weekly meetings between employee representatives and management which played a key role, along with the fact that as a result of the crisis, the communication between the company’s trade union in Hungary and the trade union at the parent company was bolstered, which also strengthened the role and position of social dialogue. Additionally, the fact that the agreement was laid out in a collective agreement (despite there being no legal requirement for the company to do this) was also important. At CabTec, I would highlight the fact that the involvement of mid-level managers in the communication of the measures adopted, and the involvement of white-collar workers in the management of the crisis (seeking out new products, markets and partners) both served to develop and reinforce the organizational culture.

To summarize the above: in the case of Audi, it was the role of social dialogue which was critical to the management of the crisis, while in the case of CabTec, it was the HRM strategy and the participatory tools applied which were defining factors.
IX. Results and Conclusions of the Research

In this chapter I shortly summarize the results of my dissertation and highlight the most important conclusions of the research.

The world of labor has undergone fundamental changes in recent decades. The emergence of info-communications technologies, the changing of the production paradigm (mass production and standardized work have been replaced by creative, flexible work and work based on knowledge), and the globalization of finances and the economy have all had an impact on the labor market (doubling of employees present, a wage competition not only among white-collar workers, and the emergence of new markets). They have affected not only the transformation of the organization of work, but also the relationship of employees and management, as well as the social dialogue. The financial and economic crisis of 2008-2009 has amplified the effects of these processes. In view of the literature and the case studies examined, the following conclusions may be drawn and the following trends may be established for social dialogue as far as Hungary and the Hungarian automotive industry are concerned.

The varieties of capitalism is apparent in the patterns of social dialogue as well. Several authors argue that the countries of Central and Eastern Europe belong to a distinct category (e.g. Nölke & Vliegenhardt, 2009; Farkas, 2011), yet there are differences even within this group of nations (Bohle & Greskovits, 2007, 2012). Several authors (Glassner, V. 2013; Bohle & Greskovits 2012), in the context of the crisis and social dialogue, emphasize path dependence and a drift toward the neoliberal model. The approach of segmented capitalism places companies at the forefront (Martin, R, 2008; Makó et al., 2015), pointing out differences within the country influenced among other things by ownership structures, market conditions, scope of activities and geographic location. The various segments differ not only in their operating patterns and practices of utilizing knowledge, but also in their mechanisms of integration. Other studies point out that the institutional effects of a capital economy (e.g. various forms of capitalism) are not mechanically implemented on the company level; organizational culture (strategy) plays a key role in shaping patterns of knowledge and labor force use in the company’s organization of work (Gallie, 2012).
The trends of the automotive industry, along with the unique features of the industry, greatly impact the role and position of social dialogue, which is further nuanced by the ownership structure of the company as well as its place in the global supply chain. In a capital-intensive industry employing highly skilled workers, the appearance of the platform strategy and modularity have seen production shifting to lower-cost regions. Due to the supply chains organized around the various assembly plants, social dialogue may be an important forum in the development of responses to new challenges (e.g. the new business model, changing demand etc.). In sum, the overall picture is shaped by (1) the short term impact of the crisis; (2) losses accrued in the longer term from a drop in market share; (3) up-and-coming markets, especially the rising position of China and India; (4) increasing production in Africa and Asia; and (5) waves of acquisitions and mergers (Graham, 2010, p. 2).

In Hungary government measures were intended to shift the industry toward higher value-add products. No funding was specifically allocated to these programs; rather, exiting resources were reassigned (Neumann & Boda, 2011; EC, 2010). Naturally, subsidiaries active in the automotive industry also benefitted from support provided to mother companies. The purpose of changes to the Labor Code (Neumann & Boda, 2011) was to enable companies to carry over overtime accrued without any additional costs to a time after the crisis. No sector-wide agreements were concluded to manage the crisis. Trade unions, in order to protect jobs, were generally willing to agree to cost-saving measures.

The case studies help add nuance to the connections described in the theoretical part and help clarify these using specific examples in a local context. Organisational responses to the financial and economic crisis of 2008-2009, in line with international solutions, were based mainly on racionalization strategy and inner flexibility. In the case of Audi Hungária Motor Kft. the institution of social dialogue, and the collective agreement, and in the case of CabTec Kft. the HRM strategy, the involvement and participation and the organizational culture played the key role according the process. The contents of the agreement were influenced not so much by the position of the company in the global supply chain (organizational answers in both cases) but more by the HRM approach applied (retaining key workers).
Based on the connections explored in the literature and the cases analyzed, a question emerges regarding the extent to which social dialogue during the crisis in the Hungarian automotive industry led to path-dependent or innovative solutions as far as the level, substance and process of the talks are concerned.

Path-dependence is supported by the transformation of national and sectoral level dialogue (structural and ideological path-dependence) – in other words a shift toward the neoliberal model; the dependence of social dialogue on company strategy (long term plans, development programs, market trends).

Innovation – in accordance with international trends – is apparent on a national level in the changing strategies of the trade unions (retaining jobs instead of increasing wages) as well as on local levels. An example of the latter in the case of Audi Hungária Motor Kft. is the strengthening of cooperation between the local trade union and the trade union of the mother company, as a result of which the agreement was adopted as a collective agreement. In the case of the companies examined, new elements were – as regards communication – the introduction of weekly meetings as a new institution (Audi Hungária Motor Kft.) and the delegation of communication (CabTec Kft.). As far as the substance of the agreements was concerned, a novel element was the pay-out of breaks at CabTec Kft.

Additionally, the case of CabTec Kft. highlights the role of the HRM strategy and the organizational culture, which may also advance participation by introducing various high involvement systems and employee-friendly measures.

The following are the key findings and conclusions of my dissertation:

- Linking the literature of labor relations and HRM; formulating an appropriate research framework which may be interpreted not only in the context of the automotive industry and the crisis.

- The case studies are exemplars and include lessons for practicing professionals; on the theoretical side, they add details to the connections seen in the literature.

- The analysis and the case studies have highlighted several factors signifying path-dependence in the development of social dialogue (a shift toward the neoliberal model, company strategy), while at the same time also pointing out several elements which may be described as innovations. On a national level: the changing strategies of trade unions; on a local level: communications and certain
substantive factors (partial pay-out of breaks, incorporating the agreement as a collective agreement) must be highlighted.

- The case studies have highlighted the importance of the HRM strategy and the organizational culture in the evolution of social dialogue.

- The analysis has shown the significance of human capital, which must be studied in greater depth in the future and must be included in models both of segmented capitalism as well as of the group of Central and Eastern European states.
References


http://dx.doi.org/10.1080/01402380701276287


ETUI (2010), Benchmarking working Europe 2010, Brussels.


Magyarországon, MTA Társadalomtudományi Kutatóközpont (Szociológiai Intézet), Argumentum


148


http://www.jstor.org/stable/2524483


http://dx.doi.org/10.1080/0958519042000311444


154


Struck, O (2010). Industrial relations and Social standards in an internationalized economy. Rainer Hampp Verlag


