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The barriers to effective EWCs in Central Eastern Europe: An analysis of sector effects in the Czech Republic

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Introduction

Effective European Works Councils (EWC) presuppose the existence of effective employee representation at the national level – but this presupposition is increasingly problematic in the enlarged EU. Two main arguments have been made on the relationship between the strength of employee representation at national level and in the EWC. First, Streeck (1997) argued that when employee representation is disproportionally strong in the multinational company's home country in comparison to the other sites (as it may happen, typically, in Germany or in Nordic countries), this unbalance will preclude effective Europeanization, because the strongest union or works council will dominate the EWC. Secondly, it has been argued, especially on the basis of research on EWCs in UK-based companies, that in the opposite situation, where the most important national workforce lacks good information and consultation rights, the EWC will develop into a weak institution (Marginson and Meardi 2010).

Such presuppositions become more problematic following the EU enlargement eastwards, and the resulting increased disparities between national industrial relations traditions. At the same time, increased competitive pressures stemming from labour cost gaps make the EWC a potentially more crucial institutions for negotiating the social implication of foreign investment (Meardi et al 2009a). In the new member states of Central Eastern Europe (except Slovenia) the weakness of employee representation is well known, but the assessments of the implications for the EWC are still tentative (Meardi 2004, Tholen et al 2007).

This paper will address the issue by highlighting the hitherto insufficiently considered issue of sector variation. While the influence of economic sectors on EWC has been studied extensively in the 'old' EU (e.g. Marginson and Sisson 2004), it has not yet received due attention in the new member states.

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Our argument is based on research on local and transnational-level employee participation in twelve multinational companies operating in the Czech Republic, with headquarters in Austria, Germany, UK and USA, from the automotive and the finance sector. The rationale for transnational employee representative co-ordination is different for the two sectors, as the first is subject to international competitive pressures, while the latter is more protected from international competition, but is subject to important restructuring and dissemination of so-called global best practices. In addition, the research design allows to evaluate the sector effects distinctly according to the country of origin of multinational companies, in consideration of the differences between approaches of Angloamerican companies in comparison to continental companies. The host country is by contrast kept constant, with a focus on the 'best scenario' for EWC provided by the economically most advanced and geographically most western new member state from the old Soviet bloc.

The paper is structured in five parts. First, we will outline the argument on sector effects on the transfer of industrial relations (IR) by multinational companies (MNCs) into Central European Europe and on the nature of transnational competition among employees, and therefore transnational employee representation. Secondly, we will describe the research design and sample of case studies. Third, we will discuss the first effect, transfer of IR approaches, as contrasted with transfers in other areas of management. The following section will describe the resulting situation in terms of IR and specifically employee representation in the Czech subsidiaries. The fifth section will discuss the sector effects on international employee competition and, in turn and in combination with the IR transfer effects, on the EWC. The conclusion will summarise the lessons for EWC effectiveness in the enlarged EU.

1. The sector effect in the enlarged EU

Our research design captures possible sector effects on EWC by selecting the companies from both a manufacturing industry (i.e. the automotive industry) and a service industry (i.e. finance). Sector effects have received scant attention from either theoretical or empirical research although manufacturing and services essentially differ in how Foreign Direct Investment (FDI) relates to national locations: The production of services is usually bound to the location of consumption, something which does not hold true for most manufacturing industries. In principle, the site of their production is disconnected from the site of consumption since manufacturing goods are storable, transferable and tradable across countries.

Conventional wisdom tends to downplay the importance of this difference by arguing that considerations of consumption, or put more specifically, access to national markets generally prevail over efficiency criteria when it comes to choosing a national location (e.g. Bognano et al. 2005, Hatem 1997). This is because overcoming trade barriers is presumed to be the pre-eminent problem of transnationally oriented companies which brings them to engage in FDI. Furthermore, market- and efficiency-related investments are argued to fundamentally differ in their implications for the relationship between the distinct national locations (e.g. Markusen and Maskus 2002, Shatz and Venables 2000). If market access is actually the prime mover of FDI, then this leads to a horizontal differentiation of national locations, in that each of them runs more or less the same production program for distinct national markets, such that competition among them for investment is widely absent. This contrast with efficiency-driven FDI aimed at exploiting factor price differentials that leads to a vertical differentiation of the national locations insofar as each of them specializes in certain processes and products in line with given comparative advantages. This implies that (potential) sites of location do compete for investment. Hence, conventional reasoning equates market-related FDI with horizontal FDI on the one hand, and efficiency-related FDI with vertical FDI on the other. The consequence is that FDI faces a conflict between market-related and efficiency-related goals. For the above reasons, this conflict is supposed to be solved usually in favour of market considerations.

This conventional line of reasoning ignores the rise of transnationally integrated macro-markets such as the Single European Market. Macro-markets alter the relevance of the choice between national locations. To the extent that market access guides FDI macro-markets intervene in the relationship between the location decisions of multinational companies and possible host countries. Since national tariffs are abolished within a macro-market, market access has lost its importance to decisions on national locations within this market. Since any of these locations opens access to the macro-market, market-related considerations have primarily become a matter of choice between distinct macro-markets. After the company has decided whether or not to make an investment in a certain macro-market, there is the need to choose a national location. Due the shift of market-seeking considerations from the level of the national economy to the level of the macro-market, investors can concentrate on efficiency considerations when it comes to selecting a national location. As macro-markets thus disconnect location decisions on market access from location decisions on efficiency, the company is able to reconcile horizontal and vertical motives of FDI. This has three important consequences for the relationship between the national locations of a multinational. First, competition among the locations has intensified within a macro-market; second this competition takes place increasingly over comparative efficiency and performance; third, efficiency-driven competition for FDI affects manufacturing rather than services, echoing the difference between these sectors in terms of transferability of their production.

Covering the automotive industry and the finance industry, our sample of case studies thus covers two industries whose multinationals strongly differ in how their national locations, including their home-based production sites, relate to each other. We expect FDI in the automotive industry to be more subject to efficiency criteria than finance, and this to have implications for HRM and IR, and thereby on the EWC. As a result of transferability of production, automotive multinationals can consistently pursue a policy of vertical FDI, by distributing distinct parts of production among distinct national locations according to factor price differentials across these locations. As far as labour management is concerned, this means re-locating labour-intense activities to low-wage countries provided labour at required skill levels is available there. In case of our sample, regional proximity of the Austrian and German companies to the Czech Republic, which records comparatively skilled and cheap labour, even magnifies this tendency towards vertical FDI. If FDI is organized horizontally, multinationals can enforce efficiency goals across their subsidiaries by means of benchmarking, "best practices" and "coercive comparisons" within the common context of an internal market for investment (Marginson and Sisson 2004). In these circumstances, (re)investment concentrates on the best-performing locations, and this may lead to a vertical restructuring of FDI in the long run.

This situation contrasts with finance. Investment in a certain country is still market-related. Since production is tied to the site of consumption a multinational from this sector has to establish a subsidiary in any country where it intends to conduct business. Hence, competition between the national locations is moderate but not completely absent. Advanced telecommunication has enabled the companies to outsource and off-shore certain back-office functions (Marginson and Sisson 2001, Storey et al 1999), and to introduce direct banking that reduces dependence on local branches. While some trade union response to competition in the finance sector has occurred, this is rather outside the realm of the EWC as it tends to involve Anglophone non-EU countries (Taylor and Bain 2008). In addition, benchmarking, "best practices" and "coercive comparisons" can be applied to the sector. Regardless of this, efficiency-driven competition of a certain national location with locations abroad is far less accentuated in this sector than in the automotive sector. This is not only because access to markets still dominates efficiency goals in the case of finance in contrast to automotives, but also because their differences in transferability and tradability of their production translate in differences in price-setting power. International competition makes the prices of transferable and tradable goods converge towards the same level. Such convergence across countries is limited to the extent that constraints on transferability and tradability exist. This means that companies of the finance sector, and in particular their retail branch, can pass country-dependent cost increases (e.g. stemming from national laws or collective agreements) on to their customers because they are shielded from international competition as a result of the link between production and consumption. The automotive sector which is fully exposed to international competition does not enjoy comparable power to externalize cost increases, such that efficiency pressures are far stronger than in finance.

Our argument is that labour relations in multinationals are sensitive to these differences in transferability of production. The essence of these differences is that efficiency-driven competition between the distinct national locations is far more intense in the automotive sector than in finance. This should affect both sides of industry. On the one hand, (Hypothesis 1) we expect more frequent and more elaborate transfers of management practices in the case of automotives, and more comparable practices and extensive benchmarking; however, for the same reason, transfers will not include country-specific arrangements that are perceived as costs rather than advantages, such as with German or Austrian IR practices (Hypothesis 2). On the other hand (Hypothesis 3), we assume that this should find its counterpart in stronger calls for transnational collaboration of the national employee workplace representatives and unions of this sector, as compared to finance, as already suggested by Arrowsmith and Marginson (2006). Overall, we hypothesize labour relations in multinationals of the automotive industry to be more internationalized than in finance. Moreover, there is also reason to believe that the given differences in transferability condition the relationship between the two sides of industry. In accordance with the stronger efficiency pressures and the more limited opportunity to externalize cost increases in the case of automotives as compared to finance, management of automotive companies is likely to be less accommodating to employee workplace representatives and unions. As a result of these FDI effects, we can hypothesise the EWC of the automotive sector to be more active, but to meet much stronger employer resistance in the Czech Republic, if compared to those in the finance sector.

2. Research design, method and sample description

Objects of investigation are multinational firms headquartered in Austria, Germany, United Kingdom and the United States with their subsidiaries in the Czech Republic. Half of the companies are banks or insurance companies representing the service sector and half are car component suppliers representing the manufacturing sector. Two companies per country and sector are examined which amounts to a total of twelve companies. This allow to test for the combined effects of sector (discussed in the previous section) and country of origin. Some MNC practices are affected by their specific home country practices and institutions. In particular, there has been much discussion of the HRM and IR specificities of US and UK (Anglophone) companies (e.g. Almond and Ferner 2006) compared to German and Austrian (Germanic) counterparts (e.g. Bluhm 2007): the former being characterised by stronger preference for numerical flexibility and direct employee participation, compared to the latter's association with functional/working time flexibility and indirect participation. Even if recent studies (Meardi et al 2009b, Tholen 2007) shed some doubts on the enduring significance of such distinctions, a comparison allows to distinguish between different national practices, and the extent of their transfer: the business case for transferring Anglophone IR solutions may not apply to the Germanic ones. The Czech Republic is selected as the economically most advances post-Warsaw Pact country, and the one geographically most integrated into the EU macro-market.

The case studies are based on two to four partly structured confidential expert interviews with the strategic management, the HR management and employee representatives both at the headquarters and the Czech subsidiary of each company. Additional sources are relevant company agreements, codes of conduct, corporate publications, company websites, the coverage of the companies in the press, press releases and trade union websites. Since information provided by the interview partners could only be partly verified (e.g. through other interview partners or other sources), the conclusions should be drawn with caution. A limitation of the study is the non inclusion of ordinary employees, whose analysis would have required different, more in-depth methods at the cost of the comparative scope, which needed to be prioritised given the focus on managerial and union approaches, rather than on their effects and perception.

The semi-structured questionnaires that served as an interview guide were developed in German and English and were adapted to the interview partners and the company characteristics. In some cases the interviews were conducted with the help of a Czech interpreter.

The case study companies (Table 1) range in from below 500 employees (A-BAN2) to more than 60,000 (D-INS2, A-BAN1, US-BAN). Each sector is covered by small (below 1,000 employees) and large (more than 20,000 employees) companies. The smallest Czech subsidiary employs around 100 employees (D-INS1), while the largest affiliates engage more than 1,000 workers (D-CAR1 and US-BAN). The skill level among the employees at the subsidiaries is predominantly low at the Austrian and UK car component suppliers and generally high at the rest of the investigated companies. The level of internationalization in terms of the share of foreign employees in the total number of employees ranges from 45% (D-CAR2) to 90% (UK-CAR). The car component suppliers in the company sample are more internationalized than the finance companies. The majority of the investigated subsidiaries were set up or acquired in the first half of 1990s, some in the second half of the 1990s and one after 2000. The mode of entry varies, with a predominance of greenfield investors (seven companies, as against three brownfield investments and two mixed). Global presence differs quite strongly with only one foreign company site at A-BAN2 and foreign subsidiaries in 55 countries at US-BAN.

In the home countries some form of formal collective employee representation is present in every company. At the Czech subsidiaries there is an inhouse trade union present at D-CAR1, UK-CAR, US-CAR and there was an organising attempt at the end of the research at US-BAN.

A European works council or Societas Europaea works council (SE WC) is planned at D-CAR1 and present at UK-CAR, A-BAN1, D-INS2 and D-INS1 but at the latter the Czech subsidiary is not represented.

Comparing the financial sector and the automotive, one notes that the financial sector differs from the manufacturing one for the broader scope of direct participation and the less adversarial industrial relations. Within the Anglo-American firms there are major differences between sectors with regard to union presence and degree of individualisation of employment relations. The trade union density is very weak in the financial sector and high in the automotive one. In manufacturing, the trade unions' role is basically limited to negotiation of wages and working time and hardly any information and consultation activities.

Differences also appear between Austrian and German companies. In the finance sector, the former have stronger trade unions and more organised industrial relations, while in the manufacturing one, the smaller Austrian companies have undergone more radical employment restructuring with consequent trade union and works council weakening.

3. Transfer of management practices across two sectors

Literature on management practices' transfer within multinationals has stressed the contingency and variability of it (Rosenzweig and Nohria 1994; Taylor, Beechler and Napier 1996; Marginson and Meardi 2006; Pudelko and Harzing 2007; Meardi et al. 2009b), but it has not engaged in systematic sector comparisons. Our research is an initial attempt at filling this gap through a comparison of transfers in the automotive component sector, where FDI is particularly efficiency-oriented (Meardi et al 2009a), and in the finance sector, where FDI is more market-oriented. The case studies in the finance sector come from different sub-sectors (banking, consumer finance, insurance), which vary greatly in terms of employment practices. However, given that the focus of this section is on whether practices are transferred, and not on the nature of practices itself, this is not an obstacle to our inter-sector comparison: all the finance companies differ from the automotive ones in terms of the crucial variable of FDI motivation (market access vs efficiency).

Table 1 shows the general picture across the twelve case studies in terms of management practice transfer and standardisation. A seven-point scale is used on each dimension, ranging from 1=very low to 7=very high, on the basis of interview information on the number and relative importance of practices transferred, or of co-ordination mechanisms – this was built through in-depth collegial comparative analysis of the case study reports.

Our first hypothesis suggested that HR co-ordination, production system transfers, and HR transfers are higher in the macro-market manufacturing sector, where FDI is efficiency-driven, than in the more nationally embedded finance sector, because home-based production and HRM are considered to be more efficient.

By contrast, the second hypothesis expects home-based IR not to be transferred, because they are considered as a restraint to management and a potential cost. Moreover, the attention not to transfer IR and to prefer the Czech practices would be stronger in the automotive sector than in the finance sector, for two reasons: firstly, as for Hypothesis 1, the finance sector is not under the same international efficiency scrutiny, and secondly, national IR systems tend to be more relevant (with their longer history, institutionalisation and visibility) in manufacturing than in services.

Our findings, as reported in Table 2, confirm the second hypothesis, and the first one with regard to product-related transfers and HRM co-ordination. By contrast, they challenge hypothesis 1 with regard to HRM transfer – an issue that requires a closer look.

The clearest finding is that all companies, regardless of sector and with the only exception of D-INS1, show significant or massive transfers from the headquarters to the Czech subsidiaries in most business areas related to the product (production, know-how, IT systems, organisational concepts, quality standards, service orientation), while the headquarters' influence is lower in the area of HR and lowest in industrial relations, with the latter considered as a local matter by most managers. The four management dimensions in the table display continuously declining average scores when moving from product-related issues towards industrial relations, passing through HRM. The contrast is however much more marked in the automotive sector (high product-related transfers and low/very low IR transfers) than in finance (medium-high product-related transfers and low IR transfers).

Even though the overall level of product-related transfers from the parent company to the Czech subsidiaries is high in both sectors, it is more consistently so in the car component suppliers, where the importance of technology and the integration of markets require a highly coordinated production processes. The fact that transfers are rather high in the finance sector too (and very high in the UK-based private finance company) is possibly due to the specificity of the host country as a post-communist one. The finance sector – even more than the manufacturing one – went through a radical overhaul with the transition towards capitalism, as it was very underdeveloped in planned economies. The process of change has been driven by foreign companies, who have transferred their western practices not because of international competition and standardisation requirements (as in the automotive sector) but for considerations of internal competition, within the host country, against other companies (mostly foreign as well).

HRM co-ordination, whether directly through expatriate managers or frequent headquarters' visits, or organisationally through systematic reporting and benchmarking procedures, appears to be slightly stronger in manufacturing than in services, again consistently with our hypotheses. Direct control through expatriates as HR managers occurs only in three cases (A-CAR2, A-BAN2, US-BAN): mostly, HRM is left to locals. The forms of co-ordination vary depending on the size of the company and the degree of its internationalisation. There is a positive correlation between the level of general international integration and the level of HR coordination at all companies, even though the latter tends to be less intense. The degree of internationalisation, in terms of geographic spread of employment and turn-over, is a particularly important intervening variable in the finance sector, and explains the differences between the two German and between the two Austrian companies. Among the car companies, the degree of co-ordination is high in all companies but two: A-CAR2 and US-CAR. A-CAR2, however, indirectly confirms our hypothesis as this company has already completed a process of vertical division of labour between Austrian and Czech operations. As a result, HRM co-ordination is now low only because the operations are no longer comparable and include very different labour processes, after a process of radical international restructuring that changed the profile of the Austrian workforce. In the remaining outlier, US-CAR, the low level of co-ordination might have been affected by the complex company structure stemming from a series of international acquisitions as well as from the variety of products.

The analysis is more complex on IR and HRM practices. Not only are transfers less frequent than HRM co-ordination: HR coordination and HR transfers are associated, but intense HR coordination does not necessarily imply a high level of HR transfers, the latter being pursued only selectively. From a sector perspective, the notable finding is that transfer seems to be more frequent in the finance sector than in the manufacturing one, apparently against our initial hypothesis. Previous research, however, has pointed to the fact that transfers vary depending on the specific practices (Almond and Ferner 2006; Meardi et al. 2009b; Rosenzweig and Nohria 1994; Taylor, Beechler and Napier 1996), and notably on whether a home-country management practice constitutes a potential competitive advantage or not.

Accordingly, the higher-than-hypothesised HRM transfer in financial companies may be related to local competition in a sector that has been radically overhauled by foreign investors, as discussed above. This is explicitly declared by management at US-BAN, who justify the adoption of American management practices (such as performance-related-pay, informality and direct communication) not so much on the grounds of standardisation, but for the advantages they produce within the Czech Republic in comparison to the allegedly more bureaucratic western European competitors. At A-BAN1 and UK-FIN, HRM transfers are frequently related to product innovation for local competition, rather than to standardisation needs. Additionally, some transfers (corporate culture at D-INS1, diversity management at D-INS2 and US-BAN) are driven by specific home-country or international corporate social responsibility commitments, but still not by consideration of international standardisation or competition.

Conversely, and within the same logic, the lower-than-hypothesised transfer in automotive companies is not difficult to understand. Transfer actually occurs, but selectively, on those practices that are directly related to the international standardisation of production: working time (D-CAR2), teamwork (UK-CAR), health and safety (D-CAR1, D-CAR2, UK-CAR). In addition to that, some specific HRM solutions are transferred when they are deemed to constitute company-specific advantages, such as in the case of appraisals and pay system at US-CAR. Other practices are not transferred because they are not so integral to the production process and they stem rather from home-country institutional or cultural constraints that are endured, rather than chosen, by the multinationals in their home operations. This result is consistent with previous analysis of the hybridisation of MNCs' employment practices in the automotive component sector in Central Europe (Meardi et al 2009b).

This line of reasoning is even more pertinent in the case of IR transfers. In this area, transfers are overall very low, but we notice again that they are lower in the automotive sector than in the finance one. Once we look at the details of the specific IR practices, it is clear, though, that automotive companies predominantly perceive their home-country IR arrangements as costs, rather than advantages. Therefore, non-transfer, rather than transfer, is a symptom of the relevance of international competition. This is in particular the case of employee representation and collective bargaining, which is discussed in detail in the next section. By contrast, the two finance companies with a medium-high degree of transfers (US-BAN and UK-FIN) are from Anglophone countries and transfer exactly the opposite kinds of practices, i.e. anti-unionism and union-substituting forms of direct participation (surveys, employee interviews, an Employee Forum).

To conclude, the research points at sector differences in the link between FDI and employment practices, as hypothesised. The sector effects, however, operate in different directions depending on the management area. The higher degree of international competition and standardisation in the automotive components produce a higher intensity of product-related transfers and a higher degree of international HR co-ordination, This first effect meets two partial exceptions, both confirming the general rule: on one side, there are manufacturing cases where this same process of international competition has been completed and has resulted into radical vertical division of labour between international locations, and therefore a differentiation and inherent incomparability of production and HR (as in some Austrian-based companies); on the other side, those financial companies who act as innovators in the host markets and therefore transfer a large amount of product-related practices as these are seen as company-specific competitive advantages.

The sector effect operates in the opposite direction on HRM and, especially, on IR. Here, the same relevance of international competition considerations implies that automotive MNCs *do not* want to transfer those home-country operations that are perceived as disadvantages and additional costs, and prefer to benefit from the looser regulations of the Czech Republic. Only practices directly related to production standardisation needs (e.g. health and safety, working time) are transferred. By contrast, finance companies, while still not interested in full transfers, engage in exporting those company-specific HRM and IR practices (pay systems, direct communication) which are seen as valuable assets to face the competition they meet within the host country, or to move within it as product innovators with a first-mover advantage (the latter is the case for D-INS1 and UK-FIN, that offer products previously hardly available in the Czech Republic). Overall, such process results in a very pragmatic, or even opportunistic, approach to employment relations in the host country, as suggested by previous research (Tholen 2007; Bluhm 2007; Kvinge and Rezanow Ulrichsen 2008; Meardi et al. 2009b), but one that varies across sectors.

4. Resulting IR arrangements in the Czech subsidiaries

In central and eastern Europe, foreign-based MNC dispose of a wide range of strategic options and meet hardly any constraints with regards to the industrial relations approach since the trade unions are weak and there is no long tradition of collective bargaining (Bluhm 2007). In this context, Bluhm (2007) explains that the industrial relations structures and practices in central and eastern European (CEE) subsidiaries largely depends on the norms adopted by the respective headquarters managers or expatriates. In line with Kochan et al. (1986), management values towards organized labour become a central factor for industrial relations outcomes under weakly organised industrial relations systems. Dowling et al. (1999) identify management attitudes towards unions as decisive for industrial relations patterns in international firms. The relevant management values in this area include the approach towards employee representation and the various forms of employee participation, the ideas of the appropriate negotiation culture and the internationalisation or international integration philosophy.

While previous studies mainly refer to the impact of the national background (e.g. Pollert 1999 quoted in Bluhm 2007, Kvinge and Ulrichsen 2008, Kohl and Platzer 2003 or Geppert and Matten 2006) or company size (Bluhm 2003) on management attitudes, this paper addresses sector influences. As indicated in the introduction, we hypothesise, on the basis of differential FDI motivation across sectors, that managers at manufacturing MNC are more averse to employee representation than managers at finance MNC. This should result, *ceteris paribus*, in a lower quality of labour relations, i.e. a less cooperative approach and fewer employee participation opportunities in the CEE subsidiaries of the first group of companies compared to the second.

There are hardly any studies aiming at a systematic analysis of sector effects (understood as service versus manufacturing industries) in the area of industrial relations so far. Only Tueselmann et al. (2003), who compared the industrial relations in German subsidiaries and UK companies in North-West England, had a look on the sector dimension and found that within the German companies the service companies are more likely than manufacturing companies to develop a minimalist industrial relations approach which contradicts our hypothesis. Arrowsmith and Marginson (2006) compared metalworking and banking companies but solely focused on differences with regards to the EWC and transnational collective bargaining practices.

Before addressing the empirical results on the sectoral differences of the type of industrial relations at the Czech subsidiaries, the managers' attitudes, strategies and decisions taken with regards to employee participation and in particularly collective employee representation and the appropriate headquarters' involvement in the subsidiaries' industrial relations practices are compared.

The case study evidence shows that most German and Austrian headquarters managers from both sectors tend to express appreciation for the benefits deriving from employee participation even though some of them also criticise the industrial relations systems in their countries and some firms show decreasing commitment to sectoral collective agreements (D-CAR1) or works agreements (A-BAN1). The listed advantages include help to legitimize unpopular management decisions, increasing motivation and company loyalty, communication facilitation with employees, more feedback that contributes to improve the product quality, higher retention rate and easier recruitment of new employees.

The predominantly positive attitude on participative decision-making among the German and Austrian top managers at the parent companies does not translate into a commitment to transfer such patterns of industrial relations to the foreign affiliates, though. The large majority of the headquarters managers considers the area of industrial relations a local matter and did not intend any transfers in the field. Therefore, their attitude on the home country's system of industrial relations is hardly relevant for the labour relations at the company's foreign subsidiaries.

While the headquarters management influence is minimal and indirect in most investigated companies, the local Czech or expatriate managers at the affiliates seem to play a crucial role for the industrial relations situation at the subsidiary. The German and Austrian expatriates from both sectors do not feel bound to the home country's industrial relations traditions and decline independent collective employee representation at the Czech sites. Interestingly, the values and approaches on labour relations among the Czech local managers at the German and Austrian affiliates vary widely in the case study sample.

Differing attitudes were also observed in the groups of both headquarters and subsidiary management at the Anglo-American firms but no sector effects could be detected either.

In general, companies where managers reject collective employee representation prevail in the finance sector as well as the automotive sector even though there are also a range of firms where local managers support and appreciate representative structures or where they show a rather neutral approach in this area.

Explicit reservations about (potential) collective employee representation at the Czech subsidiary had most managers at A-CAR1, A-CAR2, UK-CAR, US-BAN, D-INS1, A-BAN1 and A-BAN2. The expatriates at A-BAN1, A-BAN2 and A-CAR2 and the Czech director at D-INS1 consider the lack of a collective interest representation explicitly an advantage. The Austrian director at A-CAR2 and the Czech director at D-INS1 even turned down employee attempts to get organised. The local Czech managers at A-BAN1 and A-BAN2 are aware of the differences between the labour relations at the parent company and the Czech subsidiary but they prefer their system and do not pull home country practices. The Czech managers at US-BAN's affiliate support the anti-union policy that was transferred from the headquarters. The Czech subsidiary management at UK-CAR pragmatically accepted the existing trade union but considers the presence of the company trade union a competitive disadvantage in comparison to local Greenfield small- and medium-sized factories, which are usually non-unionised. The local Czech management at A-CAR1 adopts a rather restrictive and authoritarian management style and does not believe that a company union could be beneficial.

A less distant approach is taken by US-CAR, UK-FIN and D-INS2. D-INS2's local HR manager promotes a cooperative labour relations approach. Without her efforts no election of a subsidiary representative for the Societas Europae (SE) works council would have taken place, since the employees showed no interest. UK-FIN introduced a consultation group (Employee Forum) at the Czech and Slovak operations. The election of employee representatives by the workforce was organised by the local management. US-CAR accepted the trade union that was inherited from the acquired firm. While the US headquarters management clearly favours individual direct participation to collective representation, the HR manager at the UK affiliate sees the advantage of indirect union-based participation in the possibility of convincing employees and making them responsible. He also welcomes transnational information exchange in the framework of the EWC.

A neutral or ambiguous attitude is taken by D-CAR1, D-CAR2 and A-CAR1. The D-CAR1 management pragmatically accepted the initiative to set up a trade union at the Czech sites but tried to hinder organization attempts at another foreign plant. At the German parent company the establishment of the EWC is delayed by the management. Some expatriates would prefer familiar German-like industrial relations patterns at affiliates where e. g. competing company unions operate. The local Czech managers enjoy the German influence on the labour relations at their plant but would not like to take over the German type of employee representation that they consider less independent than the Czech one. At D-CAR2, the German expatriates introduced an employee participation dialogue (*Dialogrunde*),

that takes place one to three times a year and provides employees the opportunity to raise questions, wishes or complaints that are discussed with the management in full assembly, and promote a cooperative-participative management approach. Nevertheless, the local German management turned down an employee attempt to establish a company union because they strongly dislike the Czech regulation that five employees can set up a trade union and represent the entire workforce without its legitimation (i.e. elections). They might accept collective employee participation under conditions that are comparable with the German system.

After looking at management attitudes towards collective employee participation, the industrial relations outcomes at the subsidiaries are addressed (table 2). While there are no trade unions in any of the finance affiliates, there are company unions present in three out of the six investigated car component suppliers. This sector effect seems to combine with a mode-of-entry effect. Where unions existed in the acquired companies (UK-CAR and US-CAR), these are inherited. Among the nine Greenfield investments there is only one company with a trade union (D-CAR1).

Where collective forms of employee representation exist in the subsidiaries, they are only tolerated in most cases. Trade unions are truly independent but not very strong. Several companies rejected the establishment of works councils or company trade unions so far (D-INS1, US-BAN, D-CAR2 and A-CAR2). There are some examples for the introduction of employee participation tools, where managers expect a direct positive economic impact. The scope of direct participation tools differs mainly by company size and sector plays a less significant role.

The case study results do not indicate that Central European market-seeking investments show a significantly more cooperative industrial relations and more employee participation than efficiency-seeking investments.

5. Sector effects on transnational employee representation

The previous sections provide the context to understand the role that differences in transferability and tradability of production between the service and manufacturing sectors play in transnational employee cooperation, and notably in the presence and operation of EWC.

Cross-border employee collaboration is assumed to be related to the degree of internal competition between the company sites (Meardi et al. 2009b). This is assumed to vary strongly between market- and efficiency seeking investments as outlined in Hypothesis 3 in the first section. The manufacturing management's negotiation power is strengthened by the fact that the company sites often face strong internal competition for the allocation of orders, further investments or core functions (e.g. the establishment or extension of R&D activities or IT support). The pressure on the workers is fuelled by performance comparison between MNC sites and the possibility to relocate certain business functions or production plants to (other) low cost destinations. These negative effects on the workforce's bargaining power are less intense at the service companies.

While Marginson and Sisson (2004) suggest that inter-site competition might weaken or prevent cooperation between employee representatives, the more urgent need for collaboration in manufacturing might also push employees to exchange information or even show solidarity action to avoid being played off against each other and to prevent social dumping. The second scenario is reported in Denmark where cross-border union cooperation

> *'is an element of unions' strategy to prevent 'social dumping,' as they favour the transfer of the national tradition of cooperation and participation to foreign subsidiaries and support the action of unions abroad, at both plant and sectoral levels.' (EIROnline 2005, 14)*

Another argument backing the proactive employee approach in the manufacturing sector is the fact that advanced vertical integration of production facilitates employee collaboration because it can be based on regular contacts between workers of closely cooperating sites. Furthermore, the bargaining power of the employee side is strengthened by the fact that the headquarters' management is more vulnerable to interruptions in the production chain caused by collective actions (e.g. strike) in single subsidiaries.

Based on these assumptions, we hypothesise that the automotive companies display more transnational employee cooperation than the finance firms.

This section presents the case study evidence on the alleged sector differences with regards to internal competition and intersite employee collaboration, discusses whether internal competition fosters transnational employee cooperation and addresses the role of headquarters and subsidiary employees in this area.

As expected, the level of internal competition at the examined finance companies is much lower than at most of the manufacturing companies. None of the finance companies internally compete for clients since the company locations serve fragmented markets and their operations are not threatened by possible relocations. The case studies, however, revealed a trend towards intragroup competition for investment capital or risk capital and the location of competence centres and IT or R&D activities. The number of jobs possibly affected by such relocations is limited, though. Financial companies also increasingly try to compare the economic performance of their company sites but whereas it is common and feasible to draw comparisons between manufacturing plants, it is more difficult at banks and insurances where differing market conditions hamper efforts to introduce benchmarking. Among those finance companies that are confronted with internal competition, this is regarded as positive and motivating at D-INS2, while it is rather considered a threat at the other firms. Still, compared to the car component suppliers the general level of internal competition is quite low and does not present a major problem according to the employee representatives.

Turning to the extent and quality of transnational employee cooperation, the case study evidence shows that east-west contacts between employees and employee representatives are generally rather limited. Where transnational employee communication and cooperation and/or union contacts exist, this is largely in the framework of European works councils (EWC). EWC have been set up in five out of the twelve investigated companies (see Table 3).

D-INS1's EWC is considered a helpful institution that facilitates the share of first-hand official information, reveals large differences between the labour relations in the operations and extends the members horizon. So far, however, it did not contribute to significantly strengthen the employees at the foreign sites and the eastern European subsidiaries are not even represented in the EWC.

D-INS2's Societas Europaea works council is the strongest among the investigated transnational bodies but so far no effects on the labour relations at the Czech operation can be identified. The UNI-Europa Finance was involved in the establishment of the SE WC and participates at the SE works council meetings. The D-INS2's subsidiary's influence in the SE WC seems to be very low and the Czech Republic has not been concerned by the negotiation topics so far.

At A-BAN1 it is difficult to estimate the effect on the local labour relations since the institution was recently newly constituted. The Czech subsidiary has a comparably strong role in the new EWC.

At UK-CAR the Czech representatives express some curiosity about strike activities in western plants, but declare that these are not transferable to the Czech situation due to legal and cultural differences.

At D-CAR1 the transnational cooperation has only started and will intensify with the establishment of the EWC. The German HR manager expects the Czech employee representation to increase their demands after information exchanges in the EWC. This might result in more similar standards at the German and Czech locations. The German employee representatives look forward to the EWC since it will enable them to learn more about the labour relations at foreign plants, receive official information and increase solidarity. The Czech employee representatives expect support by the EWC.

As reported in an EC-financed study on European mergers and employees' participation (ENSMP-CERNA 2001), the cross-border employee collaboration in the investigated firms did not result in international solidarity action so far but contacts are rather co-operative and open conflicts have not emerged. These empirical results contrast both with Tholen et al.'s (2007) and Voss and Wilke's (2003) findings that provide a very negative and very positive picture with respect to the quality of transnational cooperation, respectively. The first reports that western European trade unions refuse to provide information to their eastern European counterparts in the case of production relocations due to a lack of trust. The second observed frequent contact between German and Czech trade union after an eastern European direct investment in all of their investigated cases.

Among the case study companies without an EWC, three firms are not obliged to set up a EWC as they do not reach the 1,000 employees threshold (A-BAN2, A-CAR1 and A-CAR2), one company is about to set up a council but the management delays the process (D-CAR1), UK-FIN has not taken active steps but considers establishing a EWC, US-BAN does not have a EWC but other divisions in the conglomerate have one and one company does not take an initiative even though it is covered by the respective EU Directive (D-CAR2).

In line with the starting hypothesis, table 4 indicates a positive association between intragroup competition and transnational cooperation between employee representatives. This involves a sector effect, since car component suppliers display a higher level of internal competition than the finance companies, but this is strongly mediated by size effects and international organisation, resulting in an only minor aggregate difference. Company size is the most important explanatory factor for the existence and scope of inter-site employee cooperation. The large companies in the sample more often display transnational cooperation than smaller firms. This might be due to the fact that institutionalised employee representation (as a precondition for transnational employee cooperation) is more likely to be found in large companies. The European Trade Union Confederation (ETUC 2008) confirms the importance of company size for the institutionalisation of transnational cooperation. It found that 34% of the 2 264 companies that are covered by the EU Directive had EWC in operation in 2008. While 61% of the companies with more than 10 000 employees have EWC, this is only the case for 23% of the companies with less than 5 000 workers. These results show that the prevalence of EWC in our company sample is above average.

Size explains not only the existence of the EWC, but its actually functioning, which is proactive only in the very largest MNCs, where the number of employee representatives can support continuous networking activities. None of the manufacturing MNCs in this research has sufficiently large European operations to be conducive to strong EWCs.

Besides the role of management and external actors such as national trade union and international trade union confederations, transnational employee cooperation is mainly based on the interest and engagement of the company's subsidiary and particularly headquarters employee representatives and employees. We expected the headquarters employees in manufacturing companies to be more likely to seek contact to their Czech counterparts than those in service companies.

Overall, the western European employee representatives consider transnational contacts helpful for knowledge sharing, trust-building and for increasing solidarity but their engagement in transnational cooperation is not very high. Comparing the employees at the car component suppliers with those at the finance firms the empirical results show that the first group is more committed to inter-site collaboration. The scope of activities differs not only between but also within both sectors whereby company size seems to explain the variance.

At half of the investigated companies the headquarters employees showed no or very low interest in transnational employee cooperation (A-BAN2, US-BAN, UK-FIN, D-CAR2, A-CAR1 and A-CAR2). Some interest in the Czech company site could be observed at D-INS1, D-INS2 and D-CAR1. The headquarters employees at A-BAN1, UK-CAR and US-CAR displayed high engagement in this area.

Some parent company representatives explain that their commitment to transnational cooperation is limited because they are preoccupied with other issues or because of differing approaches and levels of demand between headquarters and subsidiary employees and the lack of a common goal.

Among the subsidiary employees the general level of interest in inter-site collaboration is slightly lower than at the headquarters employees, consistently to our hypothesis. The case study evidence also supports the alleged sector effect for this group of employees. D-INS1, D-INS2, A-BAN2, US-BAN, UK-FIN, D-CAR2, A-CAR1, A-CAR2 show no or very low interest in the parent companies D-CAR1's Czech employee representatives have some interest in transnational cooperation. They hope that the future EWC will help them to achieve their demands in the area of wages and working conditions. They are not aware of the problem of internal competition. A comparatively high level of engagement could be observed at A-BAN1, US-CAR and UK-CAR. At the latter it is surprising that despite regular meetings in the framework of the EWC the Czech employee representatives are not informed about the industrial relations situation at other company sites.

Reasons for the often low interest include the lack of collective employee representation at the subsidiary, the absence of a major problem at the Czech sites, the company's good business results and the fact that the involved unions' focus is still national and there is only very basic knowledge on the industrial relations systems in other European countries. At UK-FIN, the employee representation reports that the product market conditions at each company location are too specific to benefit from transnational cooperation.

Employee representative in subsidiaries are more interested in comparisons of working and pay conditions, as this may improve their bargaining position and lead to some harmonisation. The fieldwork has however revealed that industrial relations are not a simple, one-dimensional continuum between better western practice and worse eastern practice. In the Anglo-American metalworking companies, industrial relations are rather better in the Czech Republic than in the home countries. Moreover, processes of international restructuring affect more negatively western sites than eastern ones: in some automotive companies Czech employee representatives realise that restructuring affects much more severely the western sites. Thereby, Czech employees' expectations are rather levelled towards the bottom than to the top.

Even though the extent of inter-site employee collaboration is rather limited in our sample, the case studies also indicate that internal competition in multinational companies does not counteract employee cooperation. In firms where the cheaper production opportunities at the foreign affiliates are regarded as a threat by the headquarters workers this approach could have been expected as well.

Conclusion

The broad picture from the case studies is quite clear: in both sectors, independent employee representation is weak in Czech sites and therefore the EWC, even where they exist, have little influence, despite the Czech Republic being the economically most advanced, and geographically the most western, of the new post-Soviet bloc member states.

However, the paper has also shed light on the sector effects on these processes. Importantly, the sector effect, between service (finance) and manufacturing (automotive) sector operates in a largely differential way depending on an intervening variable, i.e. the country of origin of the MNC.

The paper has focused on two sector effects. First, the effect on managerial transfers and managerial approaches to IR in the Czech subsidiary, which in turns determines the capacity of Czech employee representatives to play an active role in transnational representation. Transfers are more frequent in manufacturing than in finance in production, but the opposite is true for the IR area, as expected by our hypotheses. However, important differences between Austrian/German companies and Angloamerican ones emerge. For the former, there is no difference between sectors; for the latter, there is more transfer in the finance sector. This is due to the fact that some Angloamerican IR practices in the finance sector constitute firm-specific competitive advantages, which are important for competition against other firms within the Czech market; by contrast, most German practices are country-specific and are all perceived by management as competitive disadvantages both internationally and nationally. Moreover, the finance sector in a post-communist country emerges as much more open to foreign influence than the manufacturing one, which has strong pre-1989 traditions.

The second sector effect, on the interest for transnational action, also operates according to the hypothesis, as there is more activity to report in the automotive sector. Yet again, there are country-of-origin differences, with the deviant case of Austria where the radical restructuring of production with neighbouring Czech Republic implies narrower, rather than broader scope for transnational employee representative collaboration.

The combination of these two effects is that the Czech presence in EWCs always meets strong obstacles, but these are of different nature: due to managerial approaches to IR in manufacturing, and due to limited employee interest in finance. In terms of country of origin, overall the situation is, counter-intuitively, more difficult in German/Austrian companies than in Angloamerican ones. In the latter case, only employee representation weakness factors affect the EWC; but in the German/Austrian ones, even if typical Angloamerican anti-union practices are rarer, in addition to a similar weakness of employee representation in the Czech Republic, Streeck's (1997) 'tenet' also holds true: the larger gap in rights between home and host country prevents true collaboration and in some companies it even opens the space for divergence and segregation.

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Table 1 Case studies

	D-INS1	D-INS2	D-CAR1	D-CAR2	A-BAN1	A-BAN2	A-CAR1	A-CAR2	US-BAN	UK-FIN	UK-CAR	US-CAR
Sector	Insurance	Insurance	Car parts	Car parts	Bank	Bank	Car parts	Car parts	Bank	Private finance	Car parts	Car parts
Number of employees	4000 D: 1,800 CZ: 80	200000 D: 70000 CZ: 700	9000 D: 3000 CZ: 1500	1000 D: 600 CZ: 300	80000 A: 12000 CZ: 1600	300 A: 100 CZ: 150	800 A: 400 CZ: 160	1200 A: 120 CZ: 600	60000 US: 30000 UK: 4000 CZ: 2000	8000 UK: 3000 CZ: 600	6000 UK: 600 CZ: 600	20000 US: 6000 UK: 500 CZ: 700
Date of subsidiary set-up	1995	1993	1993-2000	2003	2001-03	1994	1991	1994	1995	1997	1998	1996
International presence	European	Global	Global	Global	Global	Only CZ	Global	Global	Global	European	Global	Global
Mode of entry	Greenfield	Greenfield	Greenfield/ Brownfield	Greenfield	Greenfield/ Brownfield	Greenfield	Greenfield	Greenfield	Brownfield	Greenfield	Brownfield	Brownfield
Main skill level at subsidiary	Secondary school	Secondary school	Skilled	Skilled	Secondary school	Secondary school	Unskilled	Unskilled	Secondary school	Mixed	Unskilled	Skilled
Economic situation (2007)	Record results	Record results	Strong growth	Growth and planned expansion	Very good results	Restructuring in Austria, high profits in CZ	Ambitious expansion	Ambitious expansion	Strong after period of restructuring	Rapid interntl expansion, stable in the UK	Ambitious expansion but very uncertain; bankrupt end-2008	After period of growth, restructuring esp. in USA

Table 2 - Intensity of transfers in the area of HR, IR and other areas and HR coordination (scale from 1=very low to 7=very high)

Company	Product-related transfers	HR co-ordination	HRM transfers	IR transfers
D-INS1	2	1	2	1
D-INS2	4	4	4	3
A-BAN1	6	6	5	1
A-BAN2	6	4	4	1
US-BAN	4	6	4	4
UK-FIN	7	4	4	4
Finance av.	***4.83***	***4.17***	***3.83***	***2.33***
D-CAR1	6	6	4	2
D-CAR2	6	6	4	3
A-CAR1	6	6	4	1
A-CAR2	6	2	2	1
UK-CAR	6	6	4	1
US-CAR	6	2	2	1
Automotive av.	***6***	***4.67***	***3.33***	***1.5***

Table 3 – IR in the subsidiaries

Company (mode of entry, subsidiary size)	**Quality of labor relations**	**Indirect participation**	**Direct participation**	**EWC**
D-INS1 Greenfield Small	Paternalistic; individualised; anti-union	Employee representatives (managers) in supervisory board	Workshops on strategy and corporate culture	Yes (without Czech reps)
D-INS2 Greenfield Medium	Individualised; participative; information	None	HR department pretends to have a Works Council role (advice, mediation, discussion)	Yes
A-BAN1 Brownfield/ Greenfield Large	Individualised; participative	Union, in brownfield part	Employee survey	Yes
A-BAN2 Greenfield Small	Individualised; informal	Informal shopfloor spokespersons	Works meeting	No
US-BAN Brownfield Large	Individualised; anti-union	Employee reps in supervisory board Union organizing attempt in progress	Works meeting Employee survey Appraisal interviews	No
UK-FIN Greenfield Medium	Individualised; strict control	Non-statutory Employee Forum, but not re-elected	Engagement survey	No
D-CAR1 Greenfield/ Brownfield Large	Information; Some consultation/ negotiation	Union at three out of four sites (low membership)	Teams (Continuous Improvement Process), Suggestion scheme	Not yet
D-CAR2 Greenfield Medium	Paternalist; Opposition to works council		Manager's bilingual assistant acting as mediator/rep. Works meetings Petitions, Mailbox Suggestion scheme	No
A-CAR1 Greenfield Small	Unilateral management		Suggestion scheme Employee survey	No
A-CAR2 Greenfield Medium	Unilateral management; opposition to works council		Informal workshop spokes-persons	No
UK-CAR Brownfield Medium	Pluralist negotiations	Union (55% density)	Works meetings Job satisfaction interviews and surveys	Yes
US-CAR Brownfield Medium	Collaborative industrial relations	Union (40% density)	Works meetings Employee survey & feedback	Yes

Table 4 - Intensity of internal competition and transnational employee cooperation (1= very low; 7 = very high)

Company	**Company size**	**Intensity of internal competition**	**Intensity of transnational cooperation**
D-INS1	Medium	2	3
D-INS2	Large	4	5
A-BAN1	Large	3	7
A-BAN2	Small	2	2
US-BAN	Large	2	3
UK-FIN	Medium	2	3
Finance av.		***2.5***	***3.83***
D-CAR1	Medium	7	6
D-CAR2	Small	7	3
A-CAR1	Small	2	2
A-CAR2	Small	3	2
UK-CAR	Medium	6	5
US-CAR	Large	5	6
Automotive av.		***5***	***4.00***