

**The London School of Economics and Political
Science**

*The political economy of industrial modernisation
in post-communist Central Europe*

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A thesis submitted to the Department of
Employment Relations and Organisational
Behaviour of the London School of Economics for
the degree of Doctor of Philosophy, London,
September 2009

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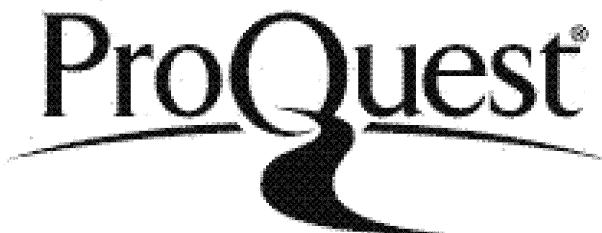


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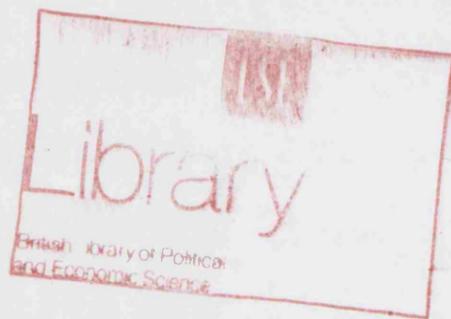
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Declaration

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Abstract

Operationalising the conceptual framework of the Polanyian double-movement, this study explores the dynamics of economic liberalism and societal re-embedding in post-communist Central Europe. Based on a case study of enterprise restructuring in four automotive plants in Poland, Hungary, the Czech Republic and Slovakia, institutional changes associated with economic liberalism and enterprise modernisation are divided into three categories: i) the expansion of managerial authority, ii) the financialisation of enterprise performance and, finally iii) the de-contextualisation of managerial knowledge and the increased standardisation of work organisation. The study finds that in relation to these institutional changes, a number of value rationalities have been mobilised by the stakeholders to make sure that the three dimensions of enterprise activity - i) corporate governance and welfare provisions, ii) enterprise performance and, finally, iii) work organisation and skills - are not fully subsumed by the cost-benefit utilitarian logic. These three non-economic organising logics - (i) welfare protection of employees by the firm, (ii) valuation of industrial capabilities expressed in a 'productionist' attitude and (iii) valuation of skill autonomy and contextualised managerial knowledge - are translated into three mutual commitments between the firm and its employees, three value rationalities, whereby the firm functions i) as an authoritarian paternalist, ii) as a source of competitive industrial capabilities and iii) as a discretionary bureaucracy based on skill autonomy. The study finds that local stakeholders have not opposed new market-based institutions, yet they have displayed certain value rationalities that have constrained and moderated the expansion of economic liberalism. As a consequence, economic liberalism in post-communist Central Europe has evolved to a more complex enterprise organising logic that combines both instrumental and value rationality and thus exemplifies the inherently contradictory nature of modern capitalism.

Acknowledgements

One of my discoveries while working on this PhD has been the observation that every doctoral research project has a strong component of personal history and can - at least partially - be interpreted as a process of self-discovery. It became almost a hobby for me to try to see if I could link research topics of my friends and acquaintances to their personal life stories. In my own case, self-discovery was undoubtedly an important although until almost very end an unconscious component. For most of the time, researching post-communist transition in Central Europe was just a very interesting combination of bringing together certain personal experience of 'real existing' state socialism with numerous elements of unknown, especially for the period of post-communist transition; a perfect mixture that allowed me to have an almost-insider closeness to the field, on the one hand, but to still to have the necessary distance to the subject of the research, on the other.

This research journey has been at times enjoyable, at times frustrating, but I definitely learned a lot and I am very grateful for that to everybody who helped me to complete this study. I am grateful to my thesis supervisors, Professor Sarah Ashwin and Professor Richard Hyman, for their time and guidance. It is due to their constructive comments and kind advice that this work could be substantially improved. I am highly indebted to all my interview partners for their time and patience. Without their participation this research would not be possible. A little concession seems necessary: first, I found it difficult to share the fascination for technology, cars and engines with some of my interviewees; but nothing is impossible in the name of science! And I guess after numerous interviews and plant visits, my enthusiasm - if not for cars, then at least for the modernisation of the factories - and my interest in working conditions were so obvious that the trade union president at one of the plants gave me a golden pendant in the shape of the Volkswagen logo. I am not sure I will ever wear it but I surely will keep it as a great memory.

I am grateful to Clemens Rode from the Friedrich Ebert Foundation in Warsaw for numerous interviews as well as for giving me the opportunity to explore the archives of the Foundation. I am also grateful to Bob Hancké, LSE, with whom I jointly conducted a part of the interviews within the framework of the NewGov STACEE project.

Furthermore, I would like to thank the PhD community at the EROB Group at the LSE. Sharing the PhD experience with such a nice group of people was not just great fun but also

allowed to create bonds that hopefully will hold long into our post-PhD lives. I would also like to thank friends and colleagues for reading and commenting on parts of this thesis: Thomas Fetzer, Vera Trappmann, Ginny Doellgast, Pia Schober, Lena Recknagel, Maia Nikolaishvili, Lisa Ahsen Sezer, Uli Theuerkauf, Zhenya Sleptsova, Katka Svickova, Jose-Luis Alvarez-Galvan, Sophie Martin, Guglielmo Meardi, Horen Voskeritsian, Catherine Spieser and Sylvia Roesch.

I gratefully acknowledge the sources of funding during my PhD studies. The German Academic Exchange Service (DAAD) provided me with a post-graduate scholarship during the first year of studies; the scholarship of the UK's Economic and Social Research Council covered my student fees for three years; the LSE Graduate Support Scheme supported my research with several graduate awards, and the LSE EROB Group awarded me a teaching fellowship and a number of conference travel grants as well as provided me with office space.

Last but not least, I thank my parents for awakening my intellectual curiosity.

Tables	9
Charts	9
INTRODUCTION: ECONOMIC LIBERALISM AND SOCIETAL RE-EMBEDDING	10
INTRODUCTION: ECONOMIC LIBERALISM AND SOCIETAL RE-EMBEDDING	10
I. Defining key concepts - economic liberalism and societal embeddedness	11
II. Applying the concept of economic liberalism to post-communist Central Europe	17
III. Balancing theory and empirics – methodological considerations	25
IV. Organisation of the study	31
PART 1: EXPLORING CONCEPTUAL FRAMEWORKS FOR THE STUDY OF POST-COMMUNIST TRANSITION	35
I. NEO-INSTITUTIONALISM AS A BLUEPRINT FOR UNDERSTANDING THE DYNAMICS OF SOCIETAL RE-EMBEDDING?	35
I. Post-war varieties of capitalism: neo-institutional theories and organised interests	35
II. Dis-organised interests in post-communism: why corporatist concepts fail in post-communism	44
Conclusion	49
II. THEORY OF THE FIRM AND MORAL PHILOSOPHY: INTRODUCING THE NORMATIVE DIMENSION	51
I. Theories of the firm: institutions, power and contestation	52
II. Introducing deontological ethics and value rationality	57
III. Theorising the normative dimension of business and work	65
Conclusion	68
III. EMBEDDING THE NORMATIVE: LEGACIES OF STATE SOCIALISM	70
I. State socialist system of production and national differences	70
II. The three non-economic organising logics of state socialist enterprise	80
Conclusion	94
CONCLUSION FOR PART 1	96
PART 2: ENTERPRISE ORGANISING LOGICS IN POST-COMMUNISM	97

IV. THE RATIONALE FOR CASE SELECTION	102
I. Selecting the automotive industry	103
II. Selecting the VW Group	108
III. The multiple case study	119
Conclusion	120
V. THE AUTHORITARIAN PATERNALIST ENTERPRISE	121
I. Authoritarian governance despite institutionalised labour representation	126
II. Company unions as management's junior partners	131
III. Enterprise as a welfare protector	136
Conclusion	147
VI. THE ENTERPRISE AS A SOURCE OF COMPETITIVE INDUSTRIAL CAPABILITIES	149
I. Stakeholder coalition for brand survival	151
II. The new goal of cost efficiency reconsidered	158
III. Collective agreements as production coalitions	166
IV. Industrial capabilities as an issue of public concern	171
Conclusion	174
VII. THE ENTERPRISE AS A DISCRETIONARY BUREAUCRACY	176
I. Managerial skills: professionalisation and local knowledge	180
II. Formalising and standardising work organisation	186
III. Preserving discretion in work organisation	193
Conclusion	201
CONCLUSION FOR PART 2	202
LESSONS OF TRANSITION: THE NORMATIVE DIMENSION OF BUSINESS AND WORK	203
I. Main findings	203
II. Re-introducing the normative dimension in neo-institutionalism	206
III. State socialist legacies reconsidered	209
BIBLIOGRAPHY	214

Tables

TABLE 1: ENTERPRISE INSTITUTIONS OF ECONOMIC LIBERALISM AND POLANYIAN SOCIETAL RE-EMBEDDING	32
TABLE 2: NON-ECONOMIC ENTERPRISE ORGANISING LOGICS DURING STATE SOCIALISM	95
TABLE 3: AUTOMOTIVE MNCS IN CENTRAL EUROPE	107
TABLE 4: SHARE OF EMPLOYMENT IN FOREIGN AFFILIATES IN THE AUTOMOTIVE INDUSTRY	107
TABLE 5: BASIC DATA FOR THE FOUR VW GROUP SUBSIDIARIES	110
TABLE 6: INDUSTRIAL UPGRADING IN THE FOUR VW GROUP EAST EUROPEAN PLANTS IN THE 1990S	116
TABLE 7: INDUSTRIAL UPGRADING IN THE FOUR VW GROUP EAST EUROPEAN PLANTS IN THE 2000S	116
TABLE 8: FORMAL LABOUR PARTICIPATION RIGHTS IN THE FOUR SUBSIDIARIES OF THE VW GROUP	127
TABLE 9: USE OF AGENCY WORK IN VW GROUP PLANTS	144
TABLE 10: ORGANISING LOGICS OF ECONOMIC LIBERALISM AND SOCIETAL EMBEDDEDNESS	205

Charts

CHART 1: THE EVOLUTION OF ENTERPRISE ORGANISING LOGICS IN POST-COMMUNISM	98
CHART 2: THE ROLE OF AUTOMOTIVE INDUSTRY IN VISEGRAD FOUR	105
CHART 3: EXPORT SHARES AND PRODUCTION STRUCTURES OF VISEGRAD FOUR IN MANUFACTURING	105
CHART 4: LOCATIONS OF FOREIGN AUTOMOTIVE AFFILIATES IN THE NEW EU MEMBER STATES	106
CHART 5: ENTERPRISE ORGANISING LOGICS IN VW SUBSIDIARIES: THE AUTHORITARIAN PATERNALIST	122
CHART 6: ENTERPRISE ORGANISING LOGICS IN VW SUBSIDIARIES: A SOURCE OF COMPETITIVE INDUSTRIAL CAPABILITIES	150
CHART 7: ENTERPRISE ORGANISING LOGICS IN VW SUBSIDIARIES: THE DISCRETIONARY BUREAUCRACY	177

Introduction: Economic liberalism and societal re-embedding

In 1989, with the fall of the Berlin Wall and the subsequent disappearance of the iron curtain, Central European societies embarked on a path of political, economic and societal reforms. Introducing a modern market economy and building democracy were two major goals of these reforms. The World Bank titled succinctly 'From plan to market' (Worldbank 1996): replacing central planning by a market mechanism was the key goal of the economic policies. Price and trade liberalisation and the privatisation of state-owned property were the major economic reforms of the 1990s; they were expected to be the vehicles of economic transformation. The price mechanism was established as the dominant mechanism of resource allocation instead of administrative coordination and price setting, while the privatisation of state-owned enterprises intended to find 'real' owners for the productive resources.

Economic liberalisation transformed these societies into market economies but it also had highly disruptive consequences for the societies in question. Economic depression was one of the characteristics of the early phase of transformation; its depth and length took both analysts and politicians by surprise. Industrial and economic decline was present everywhere in Central Europe in the early 1990s: industrial production decreased, investment plummeted, real wages fell, while inflation and unemployment were high (Lavigne 1995). The GDP in Russia and Ukraine, for example, fell by half, while the poverty rate increased from 2% to almost 50% (Stiglitz 2001: xii). In 1998, nine years after the collapse of the communist regime, the Central and East European countries together were still 10% below their output level in 1989. The so-called 'transformational recession' (Kornai 1994) of the early 1990s further contributed to an unprecedented tightening of the labour markets, while the implementation of austerity measures for government finances led to further cuts in social protection (Standing 2002). Thus, economic liberalisation in Central Europe led - in the short- and medium-term - to considerable societal disruptions and high social cost.

The emergence of the modern capitalist regime is a well-studied phenomenon. Giddens (1982: 27) argues that economic sociology developed as a science out of the desire to understand the emergence of modern industrial societies. Understanding the emergence and variety of modern market economies has been the main preoccupation of several academic

disciplines, among which are economic sociology, political economy and neo-institutionalism. Yet the emergence of market economies in Central European countries after the fall of state socialist regimes in 1989 is a topic worthy of study in its own right. The introduction of capitalist institutions at such a speed and on such a scale as witnessed in Central Europe is unprecedented in modern history – it has been a true ‘capitalism by democratic design’ (Offe 2001).

The overarching interest of this research study is to better understand the nature of the emerging market institutions during the post-communist transition. It explores institutional and normative dynamics in business, employment and work. The main preoccupation of this study is the expansion of economic liberalism, on the one hand, and the potential societal re-embedding, on the other. The main research question that this study explores is: What are the specific forms that economic liberalism and societal re-embedding have taken during the ‘Second Great Transformation’ (Burawoy and Verdery 1998: 1) that has taken place in Eastern and Central Europe since 1989? By emphasising the role of value rationality and non-economic enterprise organising logics this study demonstrates that the role of state socialist legacies in business, work and production need to be reconsidered. As a first step, some of the key concepts used in this study - economic liberalism and societal embeddedness - are introduced.

I. Defining key concepts - economic liberalism and societal embeddedness

Economic liberalism and social embeddedness are the key concepts of this study. This Section sets out to define these concepts building on the political economy literature. The concept of the economic liberalism and the concept of social embeddedness associated with Polanyi’s thinking were chosen as a recurring theme of this study as they (i) presuppose an inherently contradictory nature of economic activity in relation to fictitious commodities and (ii) take both institutional and ideational frameworks into account.

Economic liberalism is often associated with Adam Smith’s famous statement that the final aim of individual activity is to maximise and to satisfy the narrow self-interest. Yet, what exactly does this mean? To better understand the concept of economic liberalism it is useful to consider the writings that take a critical stance towards the market economy and the principles of economic liberalism, such as those by Karl Marx and Karl Polanyi. For both

authors, the commodification i.e. marketisation of fictitious commodities – such as labour power – is a central pillar of economic liberalism. By labour power Marx understood the accumulation of mental and physical capabilities that are used to produce the commodity. The law of value, another central concept of Marx's thinking about capitalist political economy, describes the general principle of regulation of economic exchange that is based on exchange values of commodities that are the objectified expressions of the social valuation of the labour power used to produce them. Yet it is only with the marketisation of labour power that the capitalist production system is in place. Marx devotes a large part of 'Capital' (Marx, Fowkes et al. 1990), first published in 1867, to the discussion of 'commodity fetishism'. Commodification of labour describes the process of labour marketisation: the labourer offers his labour for its exchange value, while the employer buys it for its use value. Commodification means attributing a monetary value to a social entity and using the price mechanism in exchange relationships. For Marx, commodification of labour power is a core founding pillar of the capitalist system as only this feature allows the production of surplus value. Similarly, for Polanyi, marketisation and thus commodification of fictitious commodities is a core feature of economic liberalism. In his study 'The Great Transformation' (1957), Polanyi describes the emergence of economic liberalism in the 18th and 19th century Western Europe. For him, economic liberalism is associated with the belief in the automatic steering power of the gold standard and international trade, a belief based on the naturalistic laws of equilibrium.

Both authors underline the potentially destructive features of economic liberalism. For Marx, 'commodity fetishism entails far more than the appearance of wage labour per se' (Lampland 1995: 9).

Marx's crucial insight into the fetishism of commodities was to suggest that in capitalism, a curious displacement occurred, in which social relations came to be seen as objects, and objects were accorded the qualities of persons (Lampland 1995: 7-8).

While markets are seen as active players, workers are referred to as products. As a consequence, for Marx, the commodification of labour and commodity fetishism causes alienation of workers. Similarly, Polanyi believes that economic liberalism is a disruptive process that destroys the 'societal fabric' of societies. For Polanyi, a society that would completely be dominated by the principle of economic liberalism would destroy itself (Streeck 2007). The destructive nature of economic liberalism has its roots in the

‘commodity fiction’ (Polanyi 1957: 72): labour, land and money are not real commodities but fictitious ones. They were made to commodities to assure the supply for production during the Industrial Revolution.

One of the main features of the economic liberalism is the separation of politics and economics introduced through the economic theories. Economics describes the principles of economic liberalism based on the idea of self-regulating markets. Separating politics and economics therefore entails emancipation of the economic rationale from the political and social rationales, or even its primacy. Building on Polanyi, Streeck put this argument thus: ‘economic activity [...] not just *can*, but *must* be free of moral considerations, if it is to have a desired impact not only for the individual but for the whole society’ (Streeck 2007: 9). In other words, economic liberalism in its extreme form is understood as an approach that treats economic activity ‘as a de-moralised social enclave, as a behavioural system *suis generis* in which material interests replace moral obligations¹’ (Streeck 2007: 9).

Building on the political economy studies of Marx’s and Polanyi’s I define economic liberalism as the market-driven organising logic of action based on the law of value and thus on the principles of cost-efficiency and scarcity. Economic liberalism - in its extreme form - negates other organising logics of action.

Political economy literature also provides a definition of the concept of social embeddedness that is seen as a counter-logic to economic liberalism. By underlining the incomplete nature of labour commodification, both authors, Marx and Polanyi, negate the primacy of economic cost-efficiency rationale. For Marx, in capitalism, even if labour is subjected to the law of value and thus objectified, at the same time it preserves its social character. This contradiction represents, according to Postone (1993: 47), ‘two moments of labour in capitalism itself’. He quotes Marx in saying that labour, when conceptualised as exchange-value, is related to the individual dimension, but when considered as an abstract generality it becomes social. This tension is also an interdependency: the individual and the abstract dimension of labour complement each other; the abstract form of labour only exists ‘within the social framework marked by the existence’ of the individual dimension (Postone 1993: 47). Thus, this dual character of labour is preserved in a market economy.

¹ Own translation

Similarly, Polanyi negates the primacy of the cost-efficiency rationale based on the law of value as the dominant rationale of economic activity. He argues that the separation between politics and economics is not complete because of the self-protective forces of society and because of the inherent 'double-movement' of dis-embedding of societal relations, on the one hand, and of social re-embedding driven by the forces of social embeddedness, on the other. Polanyi explains how our societies have been characterised by a tension between market forces and social regulation in the field of work and business. Social history has been characterised by a double-movement:

the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. [...]. Society protected itself against the perils inherent in a self-regulating market system [...] (Polanyi 1957: 76).

Polanyi further underlines the social nature of economic liberalism and the tension that inhibits the commodification of fictitious commodities by pointing out that during the emergence of the modern market economy, regulation and markets 'grew up together': it is only through the active role of the state that the price mechanism and the law of value could become the dominant method of social exchange and thus replace mercantilism. Thus, rather than being independent from social and political rationales, *laissez-faire* was dependent on them as it was a product of deliberate state action.

Conceptualised as a counter-movement to economic liberalism, for Polanyi, the societal re-embedding is a 'collectivist' spontaneous reaction to save the 'social fabric' of society (Polanyi 1957: 150). In the case of money management, national central banks were given the power to regulate the value of the national currency. In the case of labour issues, it took the form of protective laws and unionism. This reaction was driven by those classes and groups who were most affected by economic liberalism. Modern market economies are in the constant dynamic of a double-movement: economic liberalism and commodification driven by the law of value, on the one hand, and the self-protection of the society, on the other. The double-movement

can be personified as the action of two organizing principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes and using largely *laissez-faire* and free trade as its methods; the other was the principle of social protection aiming at the

conservation of man and nature as well as productive organization, [...] and using protective legislation, restrictive associations, and other instruments of intervention as its methods (Polanyi 1957: 132).

To summarise Polanyi's argument, the drive towards societal re-embedding comes from within the society that tries to preserve its societal fabric. Polanyi's concept of societal embeddedness used in this study is that of societal self-protecting forces that try to limit the commodification of fictitious commodities and thus to limit the dominance of economic liberalism over other organising logics. The concept of societal embeddedness that stands in the Polanyian tradition is seen as opposing the law of value and cost-efficiency organising logic of action.

A somewhat different tradition, also well-established in the neo-institutional literature and economic sociology, is one that considers societal re-embedding and societal embeddedness as something more general. An important contribution to it is the article by Granovetter (1985) who argues that any activity, even if guided by economic self-interest, can only take place embedded into a system of social relations and reciprocal obligations. In other words, Granovetter's study recognises the social foundations of all activities including the economic ones. Similarly, interpreting the notion of 'social foundations of the economy', Bandelj argues that while for economic liberalism economic action is possible without the interference of the social, 'social forces not only constrain efficiency-seeking economic agents, as most analysts emphasize, but they enable and empower social actors to construct and then execute economic strategies of action' (Bandelj 2008: 5). Also, Jacoby when discussing the features of 'the embedded corporation' argues that 'corporations are more than mechanisms for maximizing profits – that is the textbook economic view – but are also the terrain for conflict over whether and how to pursue that objective' (Jacoby 2005: 5). These studies of embeddedness teach us is that there is not one common pattern but

varieties of embeddedness [...] [that represent] specific configurations of social structures, power distributions, and cultural understandings that congeal into distinct forms of economic organization (Bandelj 2008: 13).

However, it is not this broader understanding of societal embeddedness that is used in this study, but the narrower concept of societal embeddedness associated with Karl Polanyi.

Polanyi's work and his notion of the double-movement have been criticised for an under-theoretisation of the nature of counter-movement (Silver 2003; Webster, Lambert et al. 2008). His critics argue that while, on the one hand, the ideas, thinkers and the implementation of self-regulating forces are given significant attention in his historical analysis, the concept of self-protecting forces, on the other hand, is discussed insufficiently. Polanyi discards the working class as the driver of change thus disagreeing with Marx, but does not elaborate in greater detail on alternatives. He mentions certain groups in society who are 'immediately affected by the deleterious action of the market' as potential forces of counter-movement and societal re-embedding, but he remains vague about specific actors and mechanisms. He speaks only in very general terms about different societal institutions such as trade unions as driving forces of self-protection. However, Polanyi's concepts of double-movement and societal embeddedness have proven to be pertinent even several decades after the first publication of 'The great transformation' in 1944: his work turned out to be the precursor of the great de-commodification of labour in the post-World War II period.

Polanyi's work is central for this research project due to two reasons. First, Polanyi wrote his historical work 'Great Transformation' having the destructive consequences of the economic depression of 1930s in mind (Burawoy 2003). He considered the potentially destructive impact of economic liberalism and looked for the forms of societal re-embedding. Thus, Polanyi identified the organising logic of self-regulating markets, on the one hand, and the organising logic of self-protection of society, on the other, as the two central but inherently conflicting organising principles of the modern market economy. Second, Polanyi did not ignore the role of the double-movement as an idea. He conceptualised economic liberalism and societal embeddedness at the institutional level – in the form of protective labour legislation or collective trade union organisations, for example – but also as an idea. Even if Polanyi himself never used this term, his detailed analysis of the evolution of economic thinking in the first part of his book underlines his awareness of the importance of economic liberalism as an idea. In other words, both institutional and ideational dimensions of the double-movement are important for Polanyi. If his concept of societal embeddedness is used, the twentieth century has known a number of moments of societal re-embeddedness, all closely linked to certain ideational frameworks, from Keynesianism to fascism (Blyth 2003).

To sum up, Polanyi's work is relevant for the current study of post-communist transformation because (i) it sees economic liberalism as a force that can be potentially destructive if not complemented and counter-balanced by other organising logics and (ii) because it does not ignore the ideational dimension of economic liberalism and societal embeddedness. The next Section argues that the Central European economic liberalism of the post-communist era can be considered as a form of Polanyi's economic liberalism.

II. Applying the concept of economic liberalism to post-communist Central Europe

This Section applies the Polanyian concepts of economic liberalism and societal embeddedness to post-communist Central Europe. It argues that one possible way of conceptualising the dynamics of economic activity in Central European post-communist countries is to think about it as a double-movement of, on the one hand, economic liberalism i.e. the liberalisation of business and work activities from societal constraints by putting them under the economic logic of the law of value and of cost-efficiency and, on the other hand, of their societal re-embedding based on other logics such as mutual commitment of social actors. It elaborates how both dimensions of Polanyian concept of the double-movement that were discussed in the previous Section – the emphasis on the inherent tension between the two organising principles of economic activity and the awareness of the ideational dimension – are very relevant for the post-communist ideational and institutional change. This argument is developed by showing how the establishment of market economic institutions became a dominant organising principle in post-communist Central Europe.

Polanyi's concept of economic liberalism can be directly applied to the Central European post-communist institutional change: the existing and the new organising logics were seen as conflictual and the role of economic liberalism as the new ideology was pre-dominant. Trade and price liberalisation and state withdrawal from company ownership have been the major reforms of economic liberalism. Freeing the individual from state oppression was the proclaimed goal of the policy reforms in Central and Eastern Europe. As a consequence, the withdrawal of any intervening social and political forces from the sphere of business and work has been the central socio-economic project of the 1990s and 2000s in post-communist Central Europe. This liberation of business and work from Party-state dominance went together with the introduction of a market economic system of production.

The reforms that were implemented with the explicit aim of establishing a market economy followed the liberal blue-print designed in cooperation with international financial institutions, such as the International Monetary Fund (IMF). Previous trade arrangements in the Council for Mutual Economic Assistance (CMEA or COMECON) were governed by a central plan, while product competition was practically absent. According to the logic of the 'Washington Consensus', the liberalisation of prices was seen as 'freeing market forces' and was expected to bring efficiency gains, while liberalisation of trade was expected to allow for an increased variety of consumer goods and at the same time was believed to subject domestic producers to competition, thereby subordinating them to the law of value.

Between 1989 and 1990, Central European trade links were interrupted and a trade re-orientation to Western Europe took place. Overall, the original desire of political reformers to 'take the state out of the market' went far and the post-communist transition in Central Europe has been a strong move towards economic liberalism. At the company level, a similar quest for 'market forces' took place. Marketisation was associated with policies that aimed at turning 'soft budget constraints' of enterprises into hard ones and at replacing contractual supplier/buyer relationships based on plan by price mechanism. At the same time, the previously dominant non-economic organising logics of production were put under pressure and marginalised: state bureaucracy links to enterprises atrophied, while employment guarantees for employees disappeared and labour 'markets' were introduced. The belief in the curing impact of the market forces and the law of value was strong and the vision for the new economic regime held by the stakeholders and their advisors has been fairly simplistic – just think about Klaus' desire for 'capitalism without adjectives'. Thus, rather than seeing the organising logic of cost-efficiency as complementary to the existing societal mutual commitments and to certain political goals, work and business institutions were transformed so that to explicitly replace the social commitments and political goals by the law of value.

The perception of a conflictual nature between the economic and non-economic organising logics of economic activity becomes clear when we consider how state socialist legacies were treated in the aftermath of regime change in the early 1990s. State socialist legacies have been perceived as profoundly inappropriate for the new modern market economies that the reforms of 1989-1990 aimed at establishing. After the regime change, the general public and the majority of social scientists were of the opinion that there was nothing one could learn neither from state socialism nor from the 1989 revolutions and policy reforms

that came after it. Similarly, the national political elites in Central Europe often did not see their traditions and their legacies as potential building blocks for the future development of their societies and economies. The dominant view was that only overcoming state socialist legacies - 'curing the disease' of state socialism - would allow for a successful transformation. In other words, state socialist legacies have been perceived as something profoundly negative that has to be left behind as quickly as possible. In this context, a Polish scholar Sztompka speaks about 'civilizational incompetence' of Central Europe (Sztompka 1996: 125) as in his view, post-communist societies lack the appropriate institutional framework for a successful functioning in the market economy. To sum up, economic liberalism that has become the dominant ideational framework in Central Europe sees itself as conflictual to the previously existing mutual social commitments and obligations.

The lacking awareness of the importance of the existing societal commitments and obligations is also exemplified in another crucial dimension of emerging economic liberalism in Central Europe: its logic of a 'catching-up' modernisation and 'normalisation'. The catching-up nature of Central European post-communist transition has been underlined by numerous scholars. Most famously, Habermas argued that 1989 was a catching-up or rectifying revolution (Habermas 1990a) as it did not introduce any new ideas about a better society - something all other major revolutions since the French revolution did before - but just wanted to catch-up with the main pattern of Western modernity without violence. A characteristic of this revolution was 'its total lack of ideas that are either innovative or oriented towards the future' (Habermas 1990b: 5). Similarly, Dahrendorf (1990) argued that the strange aspect of the 1989 revolution was that there was no revolutionary idea behind. The goal of political elites was to introduce a new modernisation project with the idea of replacing the remnants of the previous semi-totalitarian modernisation project with a new one. In this new modernisation project, the 'Western' model of market economy is seen as a tool to achieve convergence on the 'main pattern' of history, a rectifying revolution - to put it in Habermas' words. The dominance of the catching-up modernisation logic is visible in the fact that overcoming state socialist legacies and 'rejoining the main pattern' of liberal democracy and market economy are often considered by Central European stakeholders as central societal modernisation objectives. Metaphors such as 'return to normality' are common in post-communist Central Europe. The post-communist transition is presented as 'a return to the evolutionary mainstream from which the socialist experiment had deviated' (Árnason 1993: 189).

The importance of economic liberalism as ideology that negates other societal organising logics should not be underestimated in the post-communist reform process. The commonly used term 'transition' represents well the post-communist belief in societal progress. This term presupposes a clearly defined endpoint of political and socio-economic transformation. The idea of conversion to the main historic pattern of market economy and democracy has been readily used to describe the post-communist transformation.

[...] it is tempting to reduce the whole Soviet trajectory to a misdirected detour of a failed leap forwards: from this points of view, the Soviet model was structurally unsustainable because it lacked some essential ingredients of the 'main pattern' and could not compete with the 'lead societies' of the West' (Árnason 1993: 180).

In the new ideational framework of expanding economic liberalism, the state socialist experiences are thus rejected.

It is true that more radical reforms with greater cut-backs in living standards that were chosen in Poland and former Czechoslovakia can partially be explained with the power of political momentum and the window of opportunity that reform designers saw as they had an exceptional support of the population. Yet market-oriented reforms in post-communism have been more than just a clever use of a window of opportunity by the previously suppressed opposition. Lavigne (1995) argues that along with a willingness to radically break away from the past, 'big bang' programs express an intellectual and political commitment to a monetarist, 'Washington Consensus' vision. The 'big bang' was an insurance against any temptation to look for a 'third way' (Lavigne 1995: 119). Furthermore, while in the early transition stages, ideological factors were intermingled and hard to dissociate from other explanatory factors such as the aforementioned 'window of opportunity', in the later stages of transition, economic liberalism took hold more visibly as the dominant organising logic: it takes for granted marketisation of fictitious commodities and the primacy of the economy over society. The new dominant narrative inverted the previous organising logic of production being dominated by political imperatives and replaced it with a new societal imperative – 'the market' i.e. the law of value regulated by the price mechanism. The tolerance for other, non-economic organising logics has been low: instead of becoming a contested political viewpoint in a pluralist setting, economic liberalism covers all major political constituencies and has not been questioned even at

societal margins. The new dominance of economic liberalism makes it difficult for other organising logics to survive.

It is worth to briefly consider the reasons for this dominance in the field of production and work. Ironically, the rapid expansion of Polanyian economic liberalism in Central Europe is, at least partially, due to the pre-existing ideational state-socialist legacies. In comparison to the modernisation projects prevalent in liberal democracies, the Party-led state socialist modernisation was different in at least two dimensions: the totalitarian or semi-totalitarian nature of the regime, on the one hand, and its belief in the evolution of society to an idealised better future, on the other. Even if Soviet state socialism differed from the state socialist versions in Central European countries, the totalitarian state legacy matters for all post-communist societies. The modernisation project in liberal democracies of Western Europe, for example, is characterised by the fact that it explicitly deals with society and its contradictions:

Its strength and significance consist, above all, in the ability to coordinate and at the same time contain the development of autonomous socio-cultural spheres. The dynamic of capitalist development is [...] counterbalanced by an institutionalized capacity to regulate the social conflict that is obverse economic rationality and to adapt the logic of the market to other principles of organization (Árnason 1993: 16).

In each societal sphere, capitalist regimes in the West have managed to accept and deal with the inherent societal tensions. Thus, 'the development of democracy has been contained within institutions that limit the possibilities of its radicalization' (Árnason 1993: 16). While in Western liberal democracies, economic liberalisation and modernisation are a group of societal goals among the plurality of societal goals, in state socialist system the modernisation project was not just a dimension of society among others, it was the central and dominant societal imperative in the late state socialist semi-totalitarian² regimes. Stalin's rule of terror, described as the 'second revolution' (Tucker 1987), was the most decisive step to bring the Soviet model of Marxism closer to the totalitarian state. Central European countries, once incorporated into the Soviet Union's sphere of influence after the

² Arendt (1961) Arendt, H. (1961). The origins of totalitarianism. London, Allen and Unwin. characterises totalitarian regimes by their double claim of 'total domination and global rule'. She explains that, different from the autocratic rule that focuses on gaining absolute political power and makes opposition illegal, totalitarian regimes are characterised by the desire to dominate all aspects of life. For Arendt, Stalinist Soviet Union as well as Hitler's Germany fell into the totalitarian category. Árnason, on the other hand, relates the concept of totalitarian regime more to the power of ideology and perceptions. He distinguishes several types of totalitarian regimes mainly relating them to the concept of total control: The exercise of power may involve mass terror or selective repression combined with more regular forms of control. [...] The official ideology can lose its quasi-religious character and shrink to a routinised but non-contestable frame of reference; in more extreme cases, its aim is to control the individual mind from within, but its role can also be limited to determining the boundaries of legitimate public discourse Árnason, J. P. (1993). The future that failed : origins and destinies of the Soviet model. London ; New York, Routledge.

World War II, were part of this totalitarian project. After Stalin's death, the totalitarian modernisation project was replaced by a semi-totalitarian one. The attempt of establishing full control over the periphery was abandoned although the ideological façade was preserved. Several variations of the early Soviet style state socialism existed and some countries, such as Yugoslavia, broke away from it early on. The three countries - Poland, Hungary and Czechoslovakia - remained within the Soviet sphere of influence but at the same time went through the most pronounced regime crisis in the 1950s and 1960s. The political crises of the post-Stalin era put an end to the total control of society by allowing for an informal societal pluralism but they did not abolish the idea of a dominant modernisation project. Although, the totalitarian dimension of Central European regimes was substantially weakened by the legitimisation crises that took place between the 1950s and 1970s, its specificity in comparison to the Western version of modernisation project did not disappear. The state socialist modernisation projects continued to officially ignore the existence of societal pluralism and the inherent tensions within society. The weak understanding of societal pluralism and the fast emergence of a new dominant narrative during post-communist transition has thus been one of the reasons for the fast emergence of economic liberalism that presents itself as the dominant organising logic.

The second crucial legacy of state socialism in the fast emergence of economic liberalism has been the strength of the utopian vision of a better society and an uncritical belief in the better future. The emerging new ideational frame of economic liberalism has many features of the first modernity. Social theories of liberal democracies distinguish between the early, first modernity, on the one hand, and the late, post-modernity, second modernity, 'reflexive' modernity (Giddens 1990; Beck, Giddens et al. 1994) or even liquid modernity (Bauman 2000), on the other³. While classical modernisation theories were part of the first modernity tradition, they are rejected by the new, reflexive modernity tradition. Ironically, the post-communist modernisation project picked up the classical modernity tradition at the time when a big part of the modern world had moved into a post-modern age. The revival of the classical modernisation theory seems to have taken hold in the uncritical dealing with the new market economy order. The continuous adherence of many Central European

³ While social theories of the first modernity represented by Durkheim, Weber and Marx were based on the logic of functional and structural determination, post-modern social theories reject these approaches as well as the progressive view of society and focus on self-constitution of society. In this reflexive post-modernist tradition, the classical modernisation theory has been extensively criticised. Corradi, for example, argues that: 'Sociology of development was turned into a plethora of studies on 'obstacles' and 'exceptions' to a prefigured march of history' Corradi, J. E. (1985). The fitful republic : economy, society, and politics in Argentina. Boulder, Westview Press..

stakeholders to the classical modernity tradition is a paradox that has been well described by Sztompka:

At the end of the twentieth century, the era of ‘triumphant modernity’, with its prosperity, optimism and expansionist drive seems to be over. The crisis rather than progress becomes the leitmotif of social consciousness. Acute awareness of the side effects and unintended ‘boomerang effects’ of modernity produces disenchantment, disillusionment and outright rejection. [...] It seems as if western societies were ready to jump off the train of modernity, bored with the journey, just at the moment when the post-communist east frantically is trying to get on board (Sztompka 1993a: 140).

Marxism-Leninism’s view of society was about an inevitable transition of society from capitalism to communism. Even if the official ideology had stopped representing Marxism-Leninism early on, the totalitarian and post-totalitarian grip on society that state socialism represented was not devoid of a clear goal: the evolution of society to communism. Thus, state socialist regimes had strong features of evolutive thinking based on the idea of societal progress. Marxist historical materialism conceptualised evolution of society in several stages: ancient society, feudal system, industrialised capitalism, socialism and communism. Furthermore, the countries of the Eastern bloc were

distinguished by the pursuit of the goal of industrial development to the exclusion of other competing goals. The mobilisation of the population is closely linked to industrial growth: the ends which the elites seek to achieve are associated with the development of an advanced industrial society (Lane 1976: 53).

Thus, the Soviet version of Marxist thinking was part of the first modernity that was based on the belief in industrialisation, technical progress and science. The constitutive principle was a ‘continuous and self-accelerating growth of the productive forces’ (Árnason 1993: 17). The belief in progress of social life can be traced back to Hegelian idealist philosophy that exercised strong influence on Marx. The Marxian interpretation of history was strongly influenced by Hegel’s dialectic philosophy:

Hegel’s work is a unique expression of faith in progress. The final meaning of progress is to be revealed and made real in the realm of philosophy, of mind. [...] World history is nothing other than the course of development of Spirit, or the striving of Spirit of self-realisation, for a knowledge of itself (Evans 1993: 10).

Marx’s conviction was that human nature was profoundly good and that economic conditions alienated humans while radical social change could help this good nature to unfold. In Soviet times, the progress-based thinking remained dominant despite increasing

ideological innovations and deviations from the original Marxism-Leninism. Although the ‘permanent revolution’ approach of Trotsky that presupposed the international expansion of revolutionary activities was replaced by Stalin’s dogma of ‘socialism in one country’, the progressive vision of social change was preserved.

A marking feature of economic liberalism in post-communist Central Europe has been its strong idealisation of capitalism and lack of critical stance towards commodification of fictitious commodities. The state socialist legacy of Communist Party-led modernisation has been crucial for the emergence of a vastly exaggerated belief in the power of self-regulating markets, a phenomenon that Block (2007), describing American political landscape, calls ‘market fundamentalism’. This term can easily be applied to post-communist Central Europe is acknowledged by Sztompka: ‘At least for the time being, we have become more capitalist than the capitalists, and more Western than the West. The pendulum has swung to another extreme’ (Sztompka 2004: 493). One of the state socialist legacies that has contributed to the emerging ‘market fundamentalism’ is the outdated understanding of the market economy in post-communism. Modernisation has been conceptualised as an inversion of Marxism but it still used Marxist understanding of capitalism: the idealised vision of the Western capitalism dominated by ‘market forces’ was based on an anachronistic picture of capitalism, as described by Marx over 100 years earlier. Thus, this vision has not incorporated changes that occurred within capitalist societies since the Marx’s and Lenin’s writings; most notably the rise of the welfare state and distributional politics. European economies and, to a certain extent even the USA, have been transformed under socialist values and left-wing politics. As Sztompka argues, in state socialism,

[t]he West was perceived as a kingdom of freedom and prosperity, and its dominant rules were modelled after a vision of 19th century capitalism, of free markets, rampant individualism, ruthless competition, robber barons, and “rags to riches” kind of careers (Sztompka 2004: 491).

To sum up, post-communist economic reforms can be described as an expansion of economic liberalism in the Polanyian sense. Economic reforms of the post-communist era inherited two features of late socialism: the lack of pluralist understanding of societal processes and an idealised, uncritical view concerning the marketisation of fictitious commodities. As a consequence, economic liberalism very quickly acquired the status of a dominant societal project that negates other organising logics of action.

III. Balancing theory and empirics – methodological considerations

The goal of this Section is to elaborate on the research methodology of this study. It sketches out the main features of qualitative research and elaborates on the intention of this research project to combine empirical inquiry with consistent theoretisation. To do this, it attempts to take stock of both the literature that deals with theory generation and the empirically-oriented case study literature. It identifies the multiple case study design as an appropriate methodology for early stages of theory generation and first theory verification.

The interest of the study is theoretical and empirical at the same time. On the theoretical level, its goal is to operationalise the concepts of economic liberalism and societal re-embedding in post-communist Central Europe. It thus aims at contributing to the existing literature on the nature of modern capitalism, mostly to its neo-institutional strand, by introducing a neglected and under-defined normative dimension of business and work into the study of institutional change in modern capitalism. On the empirical level, the goal of the study is to operationalise the Polanyian concepts of societal dis-embedding and re-embedding in the context of post-communist production and work.

Methodologically and epistemologically this research sees itself embedded in two research traditions: the constructivist and positivist/empiricist traditions. The epistemological origins of these two traditions are discussed here only briefly. Positivism or empiricism are philosophical approaches popularised by the founding father of British empiricism John Locke (1959) who argued that our sense-based experiences represent the only true sources of knowledge. In modern social sciences, this approach emphasises the importance of empirical evidence and champions the inductive scientific method already elaborated by John Stuart Mill (1950). By emphasising the importance of observing ‘the real world’ the first empiricists were crucial facilitators of the birth of modern social sciences, setting it aside from theology and philosophy where deductive methods dominated. The empiricist revolution advanced what contemporary social sciences describe as ‘scientific method’, a method of reasoning that is strongly influenced by the positivist assumptions of Popper’s (1959) falsifiability theory.

The constructivist turn in social sciences that negates the positivist assumptions has been pioneered by Berger and Luckmann (1967) who, in their work ‘The social construction of reality’, powerfully assert that social order is a human product. They uncover the paradox ‘that man is capable of producing a world that he then experiences as something other than a human product’ (Berger and Luckmann 1967: 7). The authors explain how the world is ‘objectified’ – it is experienced as objective rather than as a constructed reality: certain cognitive and normative schema are so profoundly embedded that they are taken for granted. Kuhn (1962), another important critic of positivism, famously argued that science consists of scientific paradigms; their validity is not necessarily always linked to their falsifiability.

Leaning on the constructivist literature, Hyman explains that the articulation between theory and practice, between abstract and general statements and the ‘real facts’ is present in any research: we are just not always aware of it: ‘The researcher, whether or not methodologically self-conscious, is guided by distinctive ontological and epistemological beliefs. [...]. Theory is everywhere’ (Hyman 1994: 167). In other words, any - even a very limited - generalisation and abstraction from the fact involves theory building:

Strict empiricism insists that we can believe only the evidence of our own senses. Yet only by interpreting a myriad of shapes, colours, sounds, smells, textures and flavours does this evidence become meaningful (Hyman 1994: 170).

To give the fact a meaning we thus have to use abstractions and generalisations; in other words, ‘no account of empirical phenomena, however supposedly “objective”, can be theoretically innocent’ (Hyman 1994: 172).

At this stage, it is important to consider more closely what a theory is. Different levels of generalisation and abstraction lead to different outcomes. One usually distinguishes between three categories of theories: at the low abstraction level one finds simple empirical generalisations or categorisations of phenomena that have explanatory power; at the highest and the most comprehensive level of generalisation there are complex grand theories; between these two extremes we find middle-range theories. These are theories

that lie between the minor but necessary working hypotheses that evolve in abundance during day-to-day research and the all-inclusive systematic efforts to develop a unified theory that will explain all the observed uniformities of social behaviour (Merton 1968: 39).

The claim to theoretical generalisation of this research is modest and lies somewhere between a consistent categorisation that has some explanatory power and a middle-range theory. My theoretical research interest is not to establish generally valid rules or laws but rather to transfer the concept of societal re-embedding to a different context and to uncover the extent to which enterprise organising logics can represent forces of movement and counter-movement. Thus, I identify and categorise the forces of the Polanyian double-movement in the post-communist socio-economic context at a different level of analysis: instead of exploring macro-level variables, micro-level social behaviour at the enterprise level is identified as a site of the expansion of economic liberalism, on the one hand, and of societal re-embedding, on the other.

Describing the organising logics as economic and non-economic across three different enterprise subfields represents an exercise in categorisation that according to Weick is a useful exercise: 'A strong classification system, one in which an event clearly falls into one and only one category, is especially helpful when solutions are expected to be nonrandomly distributed' (Weick 1989: 522). In other words, the use of dichotomy of economic/non-economic logics in three different subfields of enterprise activity allows me to show that such different processes of social interaction and enterprise activity as firm governance, firm performance evaluation, work organisation and skill formation can be seen through the same prism and conceptualised in same categories despite their different nature.

But is theory generation - however modest - not too ambitious of an endeavour for a young researcher with limited academic experience and resources? By providing a historical perspective on theory generation Glaser and Strauss (1999) argue that it is not: theory generation is not only feasible but also a highly necessary activity. The authors describe how theory verification became a dominant occupation in sociology, but a similar argument can be made for a broader, multi-institutional field of political economy and neo-institutionalism in which this research is situated. A genuine shift away from theory generation to theory testing can be explained by several factors among which are high respect for the forefathers of the discipline and the belief that there were many theories but few confirmations of them as well as the emergence of numerous sophisticated tools of quantitative methods after the World War II. But even in cases in which theory generation continued to be pursued, the language of theory verification became so dominant that the

process of theory generation has become less and less explicit in methodological descriptions. Also Weick sees this development as highly problematic. He argues that:

Theory cannot be improved until we improve the theorising process, and we cannot improve the theorizing process until we describe it more explicitly, operate it more self-consciously, and decouple it from validation more deliberately (Weick 1989: 516).

This study is embedded into the current academic practices; it does not have an explicit narrative discussing a detailed process of how the theoretical contribution was generated. Only indirectly, by discussing different strands of literature - from corporatist to firm level theories to moral philosophy and theories of rationality - does this study follow up at least a part of the theory generating process. Yet still on paper this process appears to be quite linear, consisting of a number of logical steps as there is no easy way to demonstrate the back-and-fourth between theoretical and conceptual literature, on the one hand, and conducting field work research, on the other. However, it is this circular pattern of theorising and observing that was at the heart of my research process.

The aim of this research project is to be both theoretically and empirically grounded. The alternative way of theorising is creating a logically deduced theory that is developed away from empirical reality, the so-called 'armchair theorising'. Yet there is no reason to privilege abstraction and generalisation over empirical inquiry: 'the relationship between abstract and concrete is interactive and dialectical, not linear and hierarchical' (Hyman 1994: 172). Furthermore, the interaction between theory and empirical data - what Glaser and Strauss (1999) call 'grounded theory' - is especially important during the early stage of theory discovery than during the later stages of theory verification and testing. Yet the grounded theory has a strong empiricist undertone that I do not share due to the reasons outlined in the first paragraph of this Section. However, Glaser and Strauss point out that there is also a middle way between grounded theory, on the one hand, and logico-deductive theorising, on the other. In this middle way, the researcher 'chooses examples systematically and then allows them to feed back to give theoretical control over his formulations' (Glaser and Strauss 1999: 5). If one uses theorising as a starting point of research and if neither the empirical nor the theoretical side is privileged, the theorisation of empirical material is an example of disciplined imagination (Weick 1989). Alvesson and Kärreman use this metaphor and elaborate that:

[E]mpirical material can facilitate theorization because it provides resources for both imagination and discipline. Breakdowns create spaces where imagination can be put to work. And although empirical material never exists outside perspectives and interpretative repertoires, it nevertheless creates a relative boundary for imagination. Some constructions make more sense than others. Empirical material anchors the process of theorization in specific claims about the object under study, thus prohibiting arbitrary ideas from being put into play (Alvesson and Kärreman 2007: 1266).

Building on these reflections, this research project chose a case study method as its empirical method of investigation. Case study methodology is considered to be the most useful way of dealing with theory building when no causal relationship is at stake. A comparative study, a survey or an experiment are useful research methodologies when rigorous hypothesis testing is at the centre of a researcher's attention, but for the early stages of theory building and first verification, a case study is an appropriate research method. It is based on theoretical sampling as - in contrast to a quantitative inquiry where the goal is to generalise from a randomly selected and unbiased sample to a larger population - the goal in case study research is not to generalise to a larger population but to derive theoretical generalisations that would refute, confirm or extend a theoretical proposition. One rationale for a case study that is not concerned with making causal claims can be finding a critical or revelatory case that helps to redirect a researcher's attention to an entirely new field or to a new phenomenon that was previously under-researched or neglected (Yin 2003). Precisely this kind of a critical/ revelatory case study has been used in this empirical inquiry.

A case study research, as any social science investigation, has to conform to a number of research criteria in order to be taken seriously by the academic community. Among various criteria, construct validity, external validity and reliability are the ones that are relevant to the case study research (Yin 2003). The criterion of parsimony is often added as a further qualifier for theory development. The criterion of construct validity refers to the fact that empirical measures need to correspond to theoretical concepts. In my case, this criterion had proven to be the trickiest one as the main goal of the empirical investigation has been to demonstrate the existence of non-economic enterprise organising logics. It is inherently difficult to demonstrate the existence of organising logics; this can only be done indirectly. The criterion of external validity refers to the requirement that a study's findings should be generalisable beyond the immediate case study. This criterion is sometimes also referred to as the generalisability condition: 'the wider the range of contexts a theory encompasses, the greater is its contribution to conceptualization and explanation' (Hyman 1994: 172-173).

This research brings together the normative dimension of social behaviour and Polanyi's concept of the double-movement. It would be interesting to test its validity in environments that are not part of the post-communist Central Europe but have a strong legacy of non-economic organising logics and weak collective and encompassing socio-economic actors. The third condition often used in academic research and closely linked to generalisability is the reliability or replicability criterion: would another researcher come to similar empirical findings using similar methodology? This criterion is the most empiricist one and probably the most controversial as some qualitative researchers doubt its importance and point out that what one finds largely depends on the theoretical and conceptual underpinnings of the investigation and replication of findings is not a necessary condition for research:

The goal is not to produce a standardized set of results that any other careful researcher in the same situation or studying the same issue would have produced. Rather it is to produce a coherent and illuminating description of and perspective on a situation that is based on and consistent with detailed study of that situation (Schofield 2002: 71).

While I partially agree with this opinion, I nevertheless believe that the empirical inquiry should be as transparent and accessible as possible to other researchers. For that purpose, a short description of the empirical research methodology follows. This study uses empirical evidence collected during the field research that I undertook in 2006-2008. Four subsidiaries of the VW Group in Poland, Hungary, the Czech Republic and Slovakia constitute a case study of post-communist legacies of non-economic enterprise organising logics. The empirical evidence was collected during fieldwork trips; it includes around 65 semi-structured interviews with relevant stakeholders in the four VW Group subsidiaries and in the automotive industry in the respective countries more generally; with government officials working in state agencies such as investment agencies and, finally, with local researchers. The list of the interviewees has been compiled and is presented in the Appendix of the study.

Finally, the criterion of parsimony is also fulfilled: by distinguishing between just two types of enterprise organising logics: the economic and the non-economic, and between three subfields in which these logics can be applied – enterprise governance, enterprise performance measures and work organisation and skills – one can consider this theoretical generalisation as sufficiently parsimonious.

IV. Organisation of the study

The study is organised as follows. As an interactive and dialectic relation between the theoretical and empirical inquiry has been the explicit goal of this study, the theoretical Part 1 and the empirical Part 2 are given equal space and attention. Part 1 identifies the conceptual tools for studying forces and mechanisms of societal re-embedding. For this purpose, Chapter I explores the existing neo-institutional literature that deals with economic liberalism and societal embeddedness. It surveys neo-institutional and corporatist literature applied to industrial societies for which it was originally developed. It discusses conceptual frameworks that were developed to describe the emergence of the modern capitalism and the forces of societal re-embedding. Its main finding is that corporatist post-war literature prominently identified certain collective actors and institutions as the drivers of societal re-embedding. Yet when I turn to the emergence of the modern market economy in post-communist countries of Central Europe, I do not find similar collective actors and institutions: the classic ‘class divide’ and the strong collective actors are missing in post-communist societies. To be able to identify the forces and mechanisms of societal re-embedding, Chapter II looks at alternative theories.

The early theories of institutional economics see the firm as a site of institutions and contracts thus going beyond the micro-economic understanding of the firm as a profit or utility maximizing entity, while the later theories of the firm identify the firm as an arena of complex societal interactions of structural and dynamic factors. Yet to identify the forces of societal re-embedding, a further step in the operationalisation of Polanyi’s argument is needed. To fill this conceptual gap, the second Section in Chapter II introduces organising logics of local actors in business and work as a further dimension of the neo-institutional literature. I elaborate on two schools of moral philosophy that constitute the foundations for different types of moral ethics and organising logics. This argument can be summarized as the normative dimension of business and work.

The role of Chapter III is to ‘embed’ the argument of different normative logics into the historic and societal context of post-communist Central Europe. The Chapter discusses certain legacies of state socialism that help to explain the post-communist evolution of enterprise institutions and organising logics in subsequent Chapters. It argues that state socialist legacies have been important for the societal re-embedding. After providing an

overview of the stylised state socialist system of production and work, three non-economic features of state socialist production are introduced. State socialist enterprises functioned as authoritarian paternalists; they were sources of competitive industrial capabilities; finally, they also were discretionary bureaucracies. Taking into account different non-economic state socialist legacies, Part 1 concludes by elaborating the core theoretical argument of the study: non-economic enterprise organising logics embedded in the state socialist experiences allow us to identify the Polanyian societal re-embedding in business and work in post-communism. While new dominant modernisation pattern - economic liberalism - represents the 'classical' movement of dis-embedding, certain enterprise organising logics have taken the function of re-embedding of social relations in business and work in Central Europe.

Part 2 operationalises this argument empirically by using the case study of three spheres of enterprise activity in Central European enterprises. Chapter IV elaborates on the rationale for selecting the four Central European automotive subsidiaries of the Volkswagen Group for the case study. Emphasising the unique industrial upgrading that the studied companies underwent during the post-communist period, Chapter IV sets up the empirical inquiry as a revelatory (multiple) case study. The rest of Part 2 presents the empirical evidence collected during field work. The task of Chapters V, VI and VII is to exemplify the existence of the three non-economic organising logics with the empirical evidence collected during the field work. The three spheres of enterprise activity considered are: (i) enterprise governance and welfare provisions; (ii) firm performance, and (iii) organisation of work and skills (See Table 1).

Table 1: Enterprise institutions of economic liberalism and Polanyian societal re-embedding

Dimension of enterprise activity	Enterprise institutions of economic liberalism	Societal re-embedding of enterprise
Firm governance and welfare provisions	Expansion of managerial authority	Authoritarian paternalist
Firm performance	Financialisation of firm performance	Source of competitive industrial capabilities
Work organisation and skills	Standardisation of work and de-contextualised management	Discretionary bureaucracy

It is the better understanding of organising logics governing business and work that allow me to identify Polanyian societal re-embedding in post-communism: despite the radical institutional break and increased role of economic liberalism in economic policy and firm

restructuring, certain parts of business, production and employment relations are still not under the dictate of economic rationale and efficiency as they have been strongly influenced by non-economic enterprise organising logics. In the empirical case study that this research carried out, the societal re-embedding has provided limitations to the originally pre-conceived understanding of 'market economy' practices in different spheres of enterprise activity. Thus, although economic liberalism has expanded and became dominant, it has transformed itself from a simplistic and idealised version to a more complex understanding that incorporates the inherent tensions among different enterprise organising logics. Every time an enterprise logic related to economic liberalism became more dominant, it was at least partially counter-balanced, constrained and moderated by non-economic organising logics of firm stakeholders.

The societal re-embedding that this study identifies is the adjustment of actors' organising logics related to business and work. This re-embedding has not been strong but it has reshaped the original form of economic liberalism. A societal re-embedding has taken place when idealised concepts about the economy and society around the idea of all-powerful market forces and retraction of social regulation - expressed in the logic of cost efficiency and the law of value, expanding managerial authority, financialisation of firm performance and standardisation of work - gave way to a more complex understanding of business and work. Thus, one of the main findings of this study is that the enterprise organising logics that emerged have combined economic liberalism with non-economic organising logics of managers and employees. The three enterprise organising logics that combine these conflictual rationales are: (i) authoritarian paternalist, (ii) a source of competitive industrial capabilities, and (iii) discretionary bureaucracy.

The final Chapter discusses the contribution of this study to Polanyi's concept of the double-movement and to neo-institutionalist literature. Although Polanyi's societal re-embedding is usually conceptualised at the macro-societal level, this study uses it as conceptual framework to evaluate dynamics of institutions and organising logics at the enterprise level. Concerning the broader role of state socialist legacies, I attempt - without any desire to glorify state socialism - to reconsider the role of state socialist legacies for Central European contemporary political economy. The non-economic enterprise organising logics that represent the normative dimension of business and work indicate that certain state socialist legacies, rather than being completely outdated, have been important

building blocks of post-communist political economy. The existence of non-economic enterprise organising logics calls us to re-consider the role of state socialist legacies.

Part 1: Exploring conceptual frameworks for the study of post-communist transition

I. Neo-institutionalism as a blueprint for understanding the dynamics of societal re-embedding?

To operationalise the concept of Polanyian societal re-embedding in the post-communist socio-economic context, this Chapter will consider conceptual frameworks that identify societal forces which limit or constrain the expansion of economic liberalism. Section I presents the neo-institutionalist literature on social concertation and collective interest formation that are often conceptualised as forces of societal re-embedding. This literature underlines the crucial role of organised interests in the construction of 'high road' production regimes that are characterised by limited commodification of fictitious commodities. Yet as this Chapter unfolds, I demonstrate that the West European experience of collective interests being the form of societal re-embedding in the Polanyian sense is only of little relevance to the post-communist societies in Central Europe. Section II reviews the literature on industrial relations in Central Europe showing that neo-institutional theories of organised capitalism in Western Europe can inform our understanding of societal re-embedding but are insufficient to identify the forces and dynamics of societal re-embedding in the post-communist space.

I. Post-war varieties of capitalism: neo-institutional theories and organised interests

Early sociological studies have been criticized for being 'structurally deterministic' and weak on the role of agency. Granovetter (1985) points out that economics under-socializes social action underlying individualistic nature of decision-making, but sociology over-socializes the human action since decisions are seen to be determined by structural factors, not allowing for dynamics in social relations. The neo-institutionalist studies discussed in this Section are useful as they address the criticism of over-socialisation of earlier sociological works on commodification and attempt to overcome it by dealing explicitly with the role of agency. Actor-based institutionalism focuses on different levels of agency,

on stickiness of institutions as well as on the power dimension in the context of post-war capitalism. It presents the West European experiences of constructing a non-liberal variety of capitalism. This Section argues that neo-corporatism and organised capitalism can be understood as systems where the power of market forces is counterbalanced by the power of social and political regulation and organisation. As an actor-based approach, the concept of non-liberal capitalism provides analytical tools for conceptualising the forces of societal re-embedding.

The concepts of labour commodification and societal embeddedness have survived into the second half of the 20th century and have become the cornerstone for the analysis of 'developed' capitalist systems. In the UK, the discussion of de-commodification or low commodification goes back to the Webbs (1897) and their notion of a 'common rule' and 'rate for the job', linked to standardisation of pay setting mechanisms and developing pay scales for jobs and occupations (Metcalf, Hansen et al. 2001). The concept of commodification remains widely used in social sciences. Thus, Esping-Andersen (1990) uses this concept in relation to welfare state provisions and labour market regulation. Among the authors who develop Polanyi's thinking further are Streeck and Yamamura (2001) and Albert (1993). They conceptualise 'labour commodification' more generally, closer to the Polanyian understanding. In his seminal work 'Capitalism against capitalism', Albert underlines the commonalities of continental European socio-economic regimes. He sets aside the 'Rhineland capitalism' from the UK and the US capitalism. He describes its capacity to mobilise non-competitive relations between economic agents, limited marketisation of some spheres of public life, as well as 'collective obligations, and moral commitments in support of economic efficiency' (Streeck and Yamamura 2001: 2). Albert's main message is that Rhineland capitalism managed to keep the market system under social control preserving the moral and institutional fabrics of society and at the same time providing economically efficient and socially acceptable outcomes. In a similar vein, Streeck and Yamamura use the concept of embeddedness to describe the principle of social control over market forces. They write:

An economy is socially embedded insofar as the transactions by which it is made up either are supposed to serve other than economic purposes (in other words, are constrained by non-economic objectives [...]) or are supported by noneconomic social ties (that is, are facilitated by particularistic relations [...] or by enforceable social obligations that engender trust among economic actors). Social constraints and opportunities in this sense, typically enforced by social institutions, define the legitimate place and the possible range of market transactions and markets in the

economy-cum-society in which they take place. By circumscribing and thereby limiting the role of markets, they typically 'distort' them, for example by shielding desirable social conditions from market fluctuations or ensuring that such conditions result even if free markets would produce different outcomes (Streeck and Yamamura 2001: 2).

I acknowledge the fact that political economy and sociology managed to withstand the radical individualism of the orthodox economics and preserved the notion of collective dimension of human identity and action. Their main interest is in identifying and in understanding the role of collective actors in modern market economies. The study of organised interests in its neo-corporatist form is a European tradition that in the late 1970s replaced the - until then - prevalent study of lobby and special interests groups that originated in the American political science tradition. Since then, the study of interest formation and interest representation differs substantially between the US and European scholars. In the US, interest groups were studied in the framework of industrial relations literature i.e. with strong focus on collective bargaining of the New Deal (Dunlop 1958) or as pressure and lobby groups (Olson 1965). The crucial word for American scholars was 'pluralism'. Yet in the 1970s, a different perspective, a different 'scheme of representation' (Streeck 2006), emerged among European scholars. In his seminal work, Schmitter (1974: 86) describes corporatism as a system of 'interest and/or attitude representation, an [...] institutional arrangement for linking the associationally organized interest of civil society with the decisional structures of the state'. When comparing pluralism and corporatism, Schmitter argues that the former type presupposes

spontaneous formation, numerical proliferation, horizontal extension and competitive interaction; the latter [is about] controlled emergence, quantitative limitation, vertical stratification and complementary interdependence (Schmitter 1974: 97).

Schmitter picks up the idea already discussed by John Maynard Keynes that 'the ideal size for the unit of control and organization lies somewhere between the individual and the modern state' (Keynes 1952: 313-314). He argues that:

the more the modern state comes to serve as the indispensable and authoritative guarantor of capitalism by expanding its regulative and integrative tasks, the more it finds that it needs the professional expertise, specialized information, prior aggregation of opinion, contractual capability and deferred participatory legitimacy which only singular, hierarchically ordered, consensually led representative monopolies can provide. To obtain these, the state will agree to devolve upon or

share with these associations much of its newly acquired decisional authority [...]’ (Schmitter 1974: 111).

The contribution of Schmitter’s work is in bringing together interests of society and of organised interests. He linked ‘the study of interest groups to fundamental issues concerning the constitution of state and societies, the role and the capacities of politics in society, and the sources of social cohesion’ (Streeck 2006: 9). What is new about Schmitter’s approach is that ‘research on interest groups was made to speak to one of the most important issues in the construction of political communities, namely how national societies chose to accommodate the collectivism (the particularistic identities and the collective action capacities) of the social groups of which they were composed’ (Streeck 2006: 9).

It is this work of Schmitter - an American scholar studying Latin American countries - that resonated among the European scholars and gave rise to the study of neo-corporatism in Europe. It is not surprising that Schmitter’s research became more popular in Europe than in the US. It allowed thinkers and politicians to justify the desirability of organised interests and institutionalize them in the public sphere and thus, as Streeck (2006: 10) puts it, to ‘reconcile social collectivism with liberal democracy’. The dichotomy emerging is that of two understandings of collective interest groups. While in the American tradition, trade unions and employer associations are seen as lobby groups co-regulating employment related issues in the Dunlopian tradition; for European authors, representatives of organised interests have broader societal functions. In other words, using Flanders’ (1965) distinction between trade unions as ‘vested interests’ and as ‘swords of justice’ one can say that while for American scholars the ‘vested interests’-dimension is more important, Europeans rather focus on the role of organised interests as ‘swords of justice’.

The ‘post-Schmitter’ literature on neo-corporatism in post-war Europe continues the tradition of identifying social forces that limit the free play of markets - the modern forces of Polanyi’s societal re-embedding. This field of study has known several trends and fashions that can be summarised under three strands of research. One area of research focuses on the relation between institutions and low commodification in socio-economic outcomes; the second type of studies of neo-corporatism deals with dynamics specific to national contexts; focussing on different institutional dimensions, the third field of studies deals with typologies of institutional arrangements. I will discuss these three research fields in turn.

The first field of studies deals explicitly with the low commodification in socio-economic outcomes of neo-corporatist arrangements showing that for many European scholars this institutional configuration was not just about narrowly defined interests of special interest groups but about large, encompassing organisations. Concertation, coordination and socio-economic outcomes associated with them stand for limiting the 'free play' of market forces. This strand of literature that grew in the 1990s due to the increasing popularity of social pacts explicitly links institutional neo-corporatist arrangements to de-commodified socio-economic outcomes. Neo-corporatism is seen as a vehicle to achieve socio-economic outcomes that serve as self-protection of the market economy: curbing inflation, moderating wage inequalities and developing 'high road' production regime. Calmfors and Driffil (1988) stipulate that upward wage pressures are smaller in highly centralised or highly decentralised bargaining arrangements, while the intermediary path leads to higher wage pressures. Soskice (1990) enlarges this analysis showing that it is not the centralisation but rather the coordination of wage regulation that mattered for economic outcomes. Traxler and Kittel (2000) develop a typology of coordination that explains wage moderation. Hancké and Hermann (2007) find important differences between coordinated and non-coordinated wage bargaining settings as to wage distribution, wage increases and product strategies. Dolvik (2000) most explicitly links neo-corporatist arrangements of the post-war era to the broad organisational principles of the market economy. He finds coordination in wage bargaining associated with more equal distribution of employment and welfare opportunities, rather than with levels of growth. Finally, Schulten (2004) describes corporatism as a mechanism that allows to 'take wages out of competition' or, in other words to 'de-commodify' wages to a certain extent. Such a 'solidaristic wage policy', he argues, has been at the heart of the neo-corporatist post-war arrangements in Western Europe. This de-commodification process has been led by normative views about distributive justice. Thus, this first group of studies focuses on different socio-economic functions of corporatism - wage moderation, macroeconomic stability and reduction of wage inequalities - showing that although the relationship between coordination of social partners and self-protecting mechanisms is not linear, in general a higher coordination among social partners in collective bargaining is associated with better socio-economic outcomes in inflation, employment, welfare and 'high road' product strategies and with more equal wage distribution.

The second group of studies focuses on the role of actors in the emergence and the evolution of neo-corporatist institutions. Streeck demonstrates how the neo-corporatist accord was at the heart of the post-war German political economy. The representatives of both social partners, employers and employees, despite the obvious differences in interests, were ready to negotiate with each other with mutual respect to achieve long-term economic growth and prosperity (Streeck 2005). Social partnership at branch level and co-determination at the company level were the two central milestones. The branch-level collective wage bargaining allowed for a compressed wage structure. Like Streeck's German case, Windolf (1989) describes the rise of corporatism in Western Europe in the 1960s-1970s more generally: 'business corporations, unions, employers' associations, and the state coalesced into a large regulatory complex'. Marin (1990) introduces the concept of 'generalized political exchange' to describe the idea of mutual trust among social partners that early concessions will be balanced by later compensations. Generalized exchange among employers, the state, and unions and centralized collective bargaining are identified as key features of this neo-corporatist system.

The crucial role of organised labour in the emergence of neo-corporatist arrangements has been well documented. It is the interplay between various state institutions and organised labour that, according to Bohle and Greskovits, made a difference:

strong unions, multi-class political parties, and autonomous and capable state bureaucracies had been the actors that transformed the structural potential for compromise to the language of politics and policies (Bohle and Greskovits 2004: 9).

In countries like Italy, where unions have been politically and ideologically divided - rather than strong and unified - a number of 'functional equivalents' (Regini 1984) emerged to allow for stable concertation. Yet although macro-concertation and coordinated wage bargaining have been crucial components of the social accord, unions faced a double-challenge to preserve their legitimacy. They bargained with employers as representational non-competing monopolies, and at the same time, at the company level, they needed to channel members' expectations to be able to speak with one voice. Certain features of union organisation were especially important to achieve this class cooperation. Thus, as Windolf (1989) argues, it was the shift from craft unionism of skilled workers to mass unionism that included unskilled assembly line workers, that allowed union leaders to take control of the shop floor. Another feature was union ability to control and channel the shop

floor and sectional (and works council) interests that allowed the institutional stability to emerge. In the Fordist mode of production dominated by the standardised and repetitive skills, trade unions were crucial for moderating employees, minimising their conflicts with management and focusing their demands on 'wages, job security and production' (Bohle and Greskovits 2004: 9).

However, the evaluation of neo-corporatist arrangements of the 1990s has not been entirely positive. Hyman distinguishes between two faces of macro-corporatism: that of the post-war period and the re-emerging neo-corporatist arrangements of the 1990s. While, he argues, the first generation of social pacts – the 'post-war compromise' - had a clear 'gain-sharing rationale: the regulated distribution of economic growth in the context of (more or less) full employment and an expanding welfare state' (Hyman 1999: 95); the second wave of social concertation that emerged in the 1990s, on the other hand, is a 'pain-sharing' arrangement. Employee representatives found themselves under increased pressure from employers and from the state: public deficits needed to be reduced and national economic competitiveness increased. Furthermore, a large number of studies appeared on what has been described as 'micro corporatism': this research deals with company level agreements between unions and management. The term micro-corporatism has been especially often evoked in the German context where a large number of such agreements were reached since the mid-1990s. Although organised labour tried to limit the effects of vertical disintegration and restructuring (Doellgast and Greer 2007), it was pushed more and more into defensive with 'concession bargaining' becoming the norm (Rehder 2003; Jürgens and Krzywdzinski 2006). Although one could imagine that these pacts for production are a transitory phenomenon linked to the weakness of labour during an economic downturn, Windolf shows otherwise. Looking at the early experiences of the Italian and German 'production coalitions', he argues that decentralisation of collective bargaining and the alliances between employees and management and some other new human resource management (HRM) practices - rather than being of transitory or cyclical nature - represent a structural break with the neo-corporatist European tradition (Windolf 1989: 3). To sum up, from its emergence in the post-war period, its strengthening in the 1970s and its debated revival in the 1990s and the early 2000s, neo-corporatism - the institution and the academic concept - has been a European version of non-liberal capitalism. Even if it evolved in most West European countries from a macro-corporatism of 'gain-sharing' to a concessionary corporatism of 'pain-sharing' - in countries like Germany the debates about the erosion and stability of these arrangements have been very lively (Hassel 1999; Hassel 2002; Klikauer

2002) - its foundations, as originally described by Schmitter, have been crucial variables of the European post-war institutional order and of post-war economic modernisation.

Like labour and trade union studies, West European literature on employer interests and their formation and representation has also been very rich. Studies that focus on capital and firm interests deal extensively with the question of what types of institutional configurations lead to 'high road' socio-economic regimes and what these 'high road' regimes are. The classical neo-corporatist literature discusses the formation and change in the role of employer associations in parallel to and together with trade union literature. Most prominently, Streeck (1991) conceptualises the crucial role of employer and labour representatives in the post-war German political economy by popularising the concept of German 'high road' production regime that he calls 'diversified quality production'. The main characteristics of this strategy are a diversified product range, highly skilled labour and quality rather than price competition. The system of corporate governance allowed mutual ownership of large companies while stable relations with the 'house banks' made firms adopt long-term business strategies rather than concentrating on the short-term windfall profits (Streeck 2005). Yet this institutional architecture conducive to long-termism and cooperation could only flourish due to the changing mindset of its core collective actors – employers and union representatives: the German neo-corporatist system was a new and unique phenomenon that emerged in the post-war period, the previous two-class societal system 'turned at 90 degrees and institutionalised at the horizontal axis' (Streeck 2005: 2). Bohle and Greskovits also underline the role of organised interests of capital for the construction of a 'high road' although their perception is more functionalist. When discussing West European post-war political economy Bohle and Greskovits explain how capital intensive consumer goods could succeed 'in imposing their logic of higher wages, better work conditions, negotiated management-labour relations, and generous welfare regimes on the rest of the economy [...] '(Bohle and Greskovits 2004).

Neo-corporatist post-war compromise is an example of embedded capitalism but within the field writers have been debating the terms and the relative importance of different institutions thus arriving at different labels and typologies. The notion of embeddedness has been challenged by other notions such as non-liberal, coordinated or organised capitalism. Thus, Streeck and Yamamura (2001) introduce the notion of non-liberal capitalism to describe the German and Japanese post-war socio-economic regimes. They prefer the concept of non-liberal economy rather than that of embedded, institutionalised or organised

capitalism because - they argue - any socio-economic system is to a certain degree embedded and institutionalised in respective societies around them and so liberal regimes such as UK or US 'are not unregulated or devoid of institutions' (Streeck and Yamamura 2001: 6) or of state intervention. When conceptualising regimes that have a stronger social control over self-regulating market forces, Streeck and Yamamura call them 'non-liberal', also in order to underline the contrast to the liberal alternative. They write:

If [...] we refer to German and Japanese political economies as 'nonliberal', we emphasise the fact that in both countries, regimes of economic governance emerged that up to this day place relatively little trust in free-market laissez-faire. Instead they rely on various forms of hierarchical and organizational coordination that sometimes require heavy injections of public authority, with vertical control or horizontal collective bargaining often overriding contractual exchanges as entered into by private agents on their own volition, discretion, and calculation (Streeck and Yamamura 2001: 6).

The authors also restate Polanyi's point about the deliberate construction - rather than a natural birth - of market institutions; they therefore reject the often used over-simplified contrast of 'strong state' in non-liberal economies vs. 'no state' in liberal economies. For them, state is strong in both liberal and non-liberal capitalisms, only that 'the strong state of liberalism, like the British state under Margaret Thatcher, is fundamentally different from the strong state of nonliberalism in that the former serves to liberate markets and contracts from social constraints and collective obligations whereas the latter tries to do the opposite (Streeck and Yamamura 2001: 7).

A number of further studies present arguments about diversity of capitalist institutions and alternatives to liberal capitalism. To such studies belongs Boyer's work on modes of regulation. Boyer's implicit point of reference is the political economy of post-war France and thus it is not surprising that although the objective is to provide a generalisable typology, this school of thought presents modes of regulation and regimes of accumulation as its two central concepts (Boyer and Durand 1997). The 'varieties of capitalism' approach by Hall and Soskice (2001) is another important contribution to the neo-institutional debate about alternatives to liberal capitalism. Its main contribution is in the construction of a dichotomous view of political economies dividing the industrialised countries in liberal and coordinated market economies. It explains institutional stability and survival of coordinated market economies through the concept of institutional complementarity. Although the explanatory power of these studies is somewhat limited due to their static and a-historical narratives, the typologies that they construct give a useful overview of stylised institutional

differences among industrialised countries. Thus, this literature is strong in explaining the institutional stability and economic success of coordinated/ regulated market economies.

This Section identified organised interests of capital and labour as crucial forces of self-protective societal re-embedding. The next Section follows up the evolution of organised interests in Central Europe after 1989. It makes clear that the institutional underpinnings have been very different from the West European experience. When the West European ‘institutional template’ is used, it is difficult to identify the societal re-embedding in post-communism.

II. Dis-organised interests in post-communism: why corporatist concepts fail in post-communism

The overwhelming majority of studies in industrial relations and collective interest representation of capital and labour do not find any evidence of societal re-embedding in post-communist Central Europe, neither at the macro nor at the micro-level. Tripartite social pacts were a popular focus of industrial relations scholars in the early 1990s. Some observers saw their emergence in the East as evidence for union revival. Iankova (1998) speaks in this context about ‘transformative corporatism’, while Mailand and Due (2004) believe that tripartite social dialogues have been useful in helping create a mutual acknowledgement between the parties and raising their level of information. However, soon more critical assessments emerged emphasising the mismatch between the institutional form and the content, between the assumptions of west European industrial relations scholars and the Central European reality. Ost (2000) describes tripartite agreements as ‘illusory corporatism’ expressing his non-satisfaction with the weak institutions which he sees merely as a corporatist façade. Pollert (1999b) calls the system ‘paternalistic’ implying the lacking autonomy of collective actors vis-à-vis the state. Similarly, Aguilera and Dabu point out that during the 1990s the three social partners ‘were not “actors” in the real sense of the term, but in fact, bundles of dynamic processes. Their functioning structure was still far from being stabilised [...]’ (Aguilera and Dabu 2005: 28).

Similar findings emerge in studies that deal with post-communist industrial relations more generally. Although Silver (2003) expects to find a weakening position of labour in home countries of the multinational companies (MNCs), but a strengthened labour in host

countries, Bohle and Greskovits (2006) find only limited evidence of the latter. They argue that:

[T]he recovery phase of neoliberal restructuring has not led to the recovery of unions and negotiated industrial relations. Social improvements mostly occurred without labour empowerment even in the Visegrad⁴ cases. No strong labour organizations – no need for employer organizations, negotiated industrial relations [...] – seems to be the rule of capital-labour interaction in the former socialist countries (Bohle and Greskovits 2006b: 22).

Dabu and Aguiera explain the lack of strong labour organisations with the legacy of 'the weak management-labour divide' during the era of central planning. Furthermore, they argue that the dominant role of the state in the tripartite process and thus the dependence of collective actors on the state persist, even if the self-understanding of labour and management started to converge on a Western understanding of union activities. Enforcement of collective agreements and tripartite bodies remain 'contingent on the political orientation of the parties alternating in power' (Aguilera and Dabu 2005: 28). Meardi (2002) pushes the argument further. In his explanation of marginalization of social dialogue, he argues that in the Polish case one finds strong support for the market ideology among union representatives expressed in a strong 'market fundamentalist' rhetoric. Meardi argues that a more complex process of re-socialisation – 'alternation' - of ideological settings has taken place in the post-communist space: the self-awareness of the unions is not just rooted in the past but it is interwoven with the idea of radical change and inverted reference values

Studies of Ost (2005) and Clarke (2005) emphasise another reason for weakness of union representation: too much focus on politics at the expense of building a backing amongst employees during the early transition. Clarke argues:

Trade unions have concentrated on seeking to represent their members in the political sphere, while making little progress in developing the representation of their members as employees, while employer associations see themselves as trade associations, while both parties consider the government and not each other as their principal counterpart (Clarke 2005: 600).

The research by Crowley and Ost (2001) provides yet another insightful argument about the labour identity in transition. The authors see in labour weakness the legitimacy crisis of the previous communist regime and resulting unclear union and working class identity. Accordingly, Crowley and Ost argue that labour was 'created as a weak actor' (Crowley

⁴ The Visegrad countries are Poland, Czech Republic, Slovakia and Hungary.

and Ost 2001: 228) and, therefore, ideological and organisational strength of unions are weak from the very early stages of transition. Ost and Crowley see insufficient adaptation of unions to the systemic change and the new capitalist reality as the major explanatory factor behind union weakness. Like Aguilera and Dabu, they argue that unions still have not made a shift from fulfilling the social benefits functions to defending workers' rights. They argue that 'labour is unwilling or incapable to think in terms of class differences' (Crowley and Ost 2001: 230). Thus, although authors' opinions differ in their evaluation of the reasons behind the weakness of organised labour, the predominant judgement sees tripartite institutions and other above-firm-level arrangements not as real vehicles of collective interest representation in post-communism. The classical division between employer and trade union representatives - in which unions are the organised and united force that limits and moderates economic liberalism - does not seem to apply in the post-communist setting. While the class conflict has been at the core of West European post-war social compromise, this divide does not seem to matter so much in the post-communist context.

Similar to the macro-level studies discussed above, company-level studies of industrial relations in post-communism also do not identify unions as potential forces of self-protection. Studies that discuss the role of MNCs in post-communist countries underline the weakness of collective actors and their inability to develop own agendas and defend their distinctive interests. Company-level studies of employment relations do not find substantial forces of societal re-embedding. The majority agrees that where unions exist, their role in company level decision making is very limited. These studies emphasise - as in the tripartite literature - the mismatch between the institutional form and the content, between the assumptions of west European scholars and the reality of Central European industrial relations. Thus, Frege (2001) brings out the missing understanding of pluralism at the company level when she reports survey results of Hungarian union leaders who do not see their and management interests as conflicting. Most union leaders consider themselves as a 'bridge between management and workers' (Frege 2001: 34). Frege concludes that no independent union identity has developed. In another contribution, Frege (2000) argues that although cooperation between management and unions formally exists, it is an illusion. She distinguishes four types of union-management relationships at the company level: cooperation and trust-based relationships (German style), conflict (UK), incorporation of unions in management's strategy (Japanese style) and marginalisation of unions by management. Frege situates Central European unions in the last category - despite the

existence of formal cooperative arrangements. She argues that 'postcommunist unions seem to provide a historical case where institutional structures exist before the emergence of ideological foundation of the labour movement' (Frege 2000: 660).

Further studies underline the convoluted nature of interest formation where workers habits and learned behaviours show a predisposition against collective solutions. Thus, referring to the phenomenon of 'one-enterprise politics' Ashwin describes an 'unusual' union-management cooperation in Russian companies (Ashwin 2004: 31): unions back managerial position and support 'enterprise paternalism'. The central function of unions is still to administer social benefits rather than represent the interests of union members in negotiations with management. In another study, Ashwin (1999a) underlines the workers' preference for clientilistic, rather than collective, solutions. Thus, the legacy of personalised, rather than rule-bound relations between workers and managers persists, with social benefits and wages are still administered in a particularistic, discretionary fashion. In a similar vein, studies by Meardi (2006) provide evidence of individualistic, rather than collective, strategies of the workforce, such as organisational disloyalty and high turnover. Nevertheless, even if some authors believe that Central Europe is not a 'social wasteland' and 'MNCs domination is an aspiration, not a tangible reality' (Meardi 2006: 1376), most of employee strategies are individualistic and the collective dimension of interest formulation is ignored by the actors. Thus, collective organisation and collective action of employees mediated by trade unions is not strong in the post-communist context.

But it is not just the weakness of trade unions and a different labour identity that make industrial relations an unlikely sphere of societal re-embedding; it is also the stronger position of today's global capital. What gives companies a strong leverage against labour and the state is arguably the inherent structural asymmetry between capital and labour: unions are secondary organisers as their members are members of other organizations such as companies first, capital being a primary organiser (Offe and Wiesenthal 1980). Furthermore, since the 1990s, the position of capital has strengthened in comparison to the post-war class compromise. Pontusson (1992) underlines the 'systemic power' of MNCs given their 'exit option'. Today, MNCs are argued to be looking to escape the regulatory web of nation states by means of 'regime arbitrage' (Streeck 1997). The cross-border extension of production chains by MNCs is extensively discussed in the literature. Although some authors underline that European economies had already strongly integrated trade relations a hundred years ago (Hirst and Thompson 1996) and that many MNCs have

a strong regional or home-country dimension (Ruigrok and Tulder 1995), the emerged consensus is that cross-national integration of production within multinational companies is a new phenomenon that leads to increased relocation threats and a ‘race to the bottom’ in social and work standards (Gray 1998). In this context, MNCs are described as ‘footless’ companies and national governments as powerless: ‘globalization was a one-way bet for the business community: governments were needed to create the space within which business could expand and integrate, but they were not otherwise welcome’ (Ruggie 2003: 116).

In a similar vein, Bohle and Greskovits (2005) argue that what matters for capital-labour compromise is business’ willingness to accommodate workers’ demands. This willingness to achieve a capital-labour compromise is more or less likely depending on the structural factors of the economy and types of skills and technology that certain industries use. In the case of Central Europe, international capital mobility has substantially increased the power of business over labour and over governments. Thus, the construction of the European Social model in Central Europe is improbable as the main foundations of a capital-labour compromise have not been transferred to the East (Bohle and Greskovits 2005). The self-protecting forces of capital are not activated because its sectoral distribution and increased mobility do not make it necessary for capital to negotiate with labour. According to Bohle and Greskovits, in the post-communist context, MNCs have even more power than in Western Europe because capital is scarce in the region and because MNCs have systemic power even before entering these economies that comes ‘from the option to refuse to enter and invest’ (Bohle and Greskovits 2007a: 456).

Despite the near-unanimity about the weakness of collective labour representation, only few post-communist studies explore other collective ways in which the potential societal re-embedding can express itself. Recourse to illiberal and nationalist politics is one possible mechanism. Ost (2005) convincingly argues that political instability and right-wing politics are a real threat for post-communist societies because of the failure to canalise the ‘passions’ and the anger along the lines of class identity. Authoritarian-paternalist tendencies are also described by Ashwin (1999b) who shows in an ethnographic study that, faced with privatisation of their company and seeing their social benefits taken away, workers - as a form of collective salvation - had a tendency to look for a strong leader. The desire for a benevolent paternalist is extended to the regional and national level of political decision making. The argument of nationalism being an alternative form of collective

mobilisation fits well into the Polanyi's double-movement thesis: exclusive, illiberal politics can be a possible self-protective mechanism of the society. Yet are there any other forms of 'self-protection' - apart from the nationalist or illiberal - emerging?

Conclusion

The aim of this Chapter was to operationalise the theory of Polanyian societal re-embedding in post-communist Central Europe using neo-corporatist and neo-institutionalist paradigms. To identify possible analytical tools the Chapter discussed a number of neo-institutional contributions: drawing on the West European post-war experience, Section I elaborated on the literature of neo-corporatist and non-liberal capitalism, showing the important role of organised interests as forces of societal re-embedding. The experience of post-war Western European countries helped us understand the nature and dynamics of self-protective forces underlining the importance of organised interests. Although since the early 1990s, the nature of neo-corporatist arrangements has been changing, the post-war experience of capital-labour compromise - underpinned by collective interest organisations of capital and labour - has been at the heart of west-European national political economies. This experience showed that it is important to understand the role of organised interests.

This literature on neo-corporatism and non-liberal capitalism was supposed to provide analytical tools for identifying the forces of the Polanyian societal re-embedding in Central Europe. Using this blueprint of West European post-war experience, Section II assessed the emergence and the role of organised interests in Central Europe. Its main finding was that the nature of collective actors and interest representatives of labour and capital are very different in post-communist countries and thus the neo-corporatist literature that emphasises the role of organised interests as forces of societal re-embedding is difficult to use in the context of systemic change in post-communist Central Europe. Capital interests in Central Europe are not organised in the classical neo-corporatist sense, while collective labour identity differs substantially from the experience of neo-corporatism - class divisions and collective mobilisation are not pronounced. When neo-institutional and neo-corporatist templates are applied, I find that self-protective forces of societal re-embedding are missing - or are very limited - in post-communist Central Europe.

Another classical field of institutional analysis on commodification and de-commodification of work is the literature that deals with the role of the state in provision of

labor legislation and welfare benefits. The neo-institutionalist literature exemplified by the influential work of Esping-Andersen studies the crucial role of the state and public intervention in ‘de-commodified’ socio-economic outcomes such as substantial unemployment benefits and protective employment legislation. Exploring the dynamics of labour commodification by explicitly considering the role of state institutions and the internal dynamics within them would have been a possible and probably very interesting path to take in order to theoretically and empirically operationalise the expansion of economic liberalism and societal re-embedding in post-communist Central Europe. Yet this path was not chosen due to two reasons. First, the role of state is not exogenous but influenced by a number of factors; the organisation of collective actors in the society around the topics of redistributive justice is among them. The welfare state became most encompassing and generous in countries where collective labour was the strongest (Korpi 1983). In other words, if studying the role of the state and public intervention in the dynamics of commodification, collective actors would have been a part of the research agenda, even more so as the short time span studied forces the researcher to have an actor-based approach rather than focussing on the long-term factors. Second, the study of public intervention in the evolution of labour code or welfare state provisions would have required a detailed study of respective national political, administrative and legal institutions, before any generalisations about the common post-communist societal re-embedding – if at all – could be reached. Yet the research objective of the present study was to identify a common post-communist Central European trend in the dynamics of commodification and de-commodification of fictitious commodities that is expected to exist despite national differences⁵.

⁵ A more detailed justification of the empirical case study is provided in Chapter IV.

II. Theory of the firm and moral philosophy: introducing the normative dimension

Chapter I applied neo-institutional and neo-corporatist paradigms but could not clearly identify any significant societal re-embedding. It made clear that using the blueprint provided by the post-war corporatist Western European literature in post-communism would not allow us to identify any evidence of societal re-embedding through collective actor representation. In order to identify the societal re-embedding of economic liberalism in post-communist Central Europe, a different conceptual framework was used instead. The two relevant strands of literature are introduced in this Chapter. First, literature on business systems and literature on MNCs provide a part of the answer as they address certain dimensions that the neo-corporatist and neo-institutional strands of literature both neglect. These dimensions, crucial for the post-communist context, are power, structural features of different business systems, and micro-political conflicts that result from diverging interests between different parts of the enterprise. Most importantly, the business systems and MNC literature helps us to identify the firm as a platform of societal re-embedding. Second, a short excursion into the Kantian moral philosophy and Weber's concepts of rationality introduces the normative dimension of action and elaborates on the different types of norms and ethical motives. This step, neglected in the neo-corporatist literature and institutionalist literature of the firm, allows for an important fine-tuning of the normative dimension which then provides the tools to identify the societal re-embedding of expanded economic liberalism.

Belanger and Edwards (2006) distinguish three realms of power relations in MNCs : macro, meso and micro levels. While the macro level describes MNC relations with government, state agencies and interest groups, meso refers to the internal company arena of interaction of different corporate actors. Finally, micro level refers to industrial relations, also known as 'politics of production' (Burawoy 1985). The previous Chapter concluded that industrial relations in MNCs could not be identified as a potential field of societal re-embedding. As class-based 'politics of production' does not seem to show diverging interests or frames of interpretation, it is at the macro and meso-level where we could expect to find societal counter-forces. In this Section, the meso-level of headquarters-subsidiary interaction is explored as a potential source of societal re-embedding.

This Chapter is organised as follows. Management and business studies literature that explore ‘the meso-politics’ of MNCs are introduced in Section I of this Chapter. Using concepts of rationality derived from moral philosophy as well as the writings of Max Weber, Section II introduces the concept of value rationality and non-economic organising logics of action. This inter-disciplinary approach that combines different strands of literature allows me to formulate the theoretical research hypothesis of this study: the existence of the normative dimension of business and work that comes to represent the Polanyian societal re-embedding.

I. Theories of the firm: institutions, power and contestation

Institutional foundations of firms have been a long standing topic of research. Coase (1937) and Williamson (1975) point out to the rationale of the firm to avoid transaction costs and to constrain opportunism by using contract rather than price mechanism as a coordination tool. The authors underline factors such as bounded rationality of economic agents, incomplete information and incomplete contracts as important factors that explain why coordination within the firm emerges and why not all coordination is left to the market. This early institutional theory of the firm laid the foundations for institutionalist economics that put the firm back in the centre of attention. Yet the early institutional theory of the firm has also been widely criticised for ignoring such dimensions as firm capabilities and resources, power structures and social embeddedness more broadly (Foss and Klein 2005). The four approaches presented below all try to overcome the limitations of the early institutional theory of the firm. They refer to the following strands of the neo-institutional firm analysis: institutional and societal context, power relations and actor-based dynamics.

One important contribution to the theory of the firm has been the concept of the firm as a context dependent institution. Whitley’s (1999) national business systems approach is a major contribution to it. His approach is different from institutional economics as it tries to overcome the under-socialization of human action. Functionalists perceive activities within the firm and the firm’s interactions with the outside world as rational agents that maximise efficiency by resolving coordination and other problems they face. For Whitley (1999), on the other hand, other factors such as culture and organizational complexity matter in explaining firm behaviour. For him, it is the internal structures of the company, its corporate governance system, the system of internal hierarchies and the degree of vertical integration that determine the decision-making process and the formulation of the

company's interests and preferences. The main dichotomy emerges between compartmentalised business systems in the US, on the one hand, and cooperative business systems of continental Europe, on the other. The former is dominated by large companies that are described as 'isolated hierarchies', while the latter is inhabited by 'coordinated hierarchies'. In isolated hierarchies, a large share of know-how is concentrated in the top management. In cooperative hierarchies, on the other hand, decision making and know-how are more horizontally distributed. The core concept of Whitley's analysis is 'institutional cohesion'. Business systems differ according to the degree of social and cultural cohesion among its constitutive elements: corporate governance, market organisation, employment relations etc. The US business system is characterised as being loose and heterogeneous, while business systems in Japan and in continental Europe are described as homogenous. These differences in production regimes allow distinguishing between different types of MNCs in terms of authority sharing and capability building across national borders. That is, while certain systems are based on arm's length relationships, others show a higher level of commitment (Whitley 2005a). In other words, according to Whitley, MNC activities can take the form of high involvement and high commitment towards the subsidiary. However, the literature suggests that even the MNCs that practice high commitment in their headquarters do not necessarily transfer the high commitment dimension to their subsidiaries (Bluhm 2001; Dörrenbächer 2002).

Power has been another field of study in the neo-institutional analysis of the firm that was neglected in the early institutional theories of the firm. The power perspective of the institutional analysis teaches us that pressures for isomorphism and institutional change more generally, do not take place in neutral but in hierarchically-structured organizational fields. DiMaggio and Powell (1983) introduce the concept of 'institutional isomorphism'. One of the main distinctions the authors make is between coercive, mimetic and cognitive sources of pressures that are generated by 'institutional isomorphism'. Their study is especially relevant for understanding the micro-politics within MNCs as it provides a better conceptualization of how the institutional traditions of the host country, the home country as well as the 'third party' interact. DiMaggio and Powell (1983) conceptualise this interaction as conflicting pressures for isomorphism across normative, cognitive and regulatory frameworks. Similarly, Ferner and Tempel (2006) consider power as an important dimension of institutional analysis. They argue that Gramsci's argument of 'hegemony' and structural power can also be made at the level of the individual company. In other words, they argue that power is not distributed equally. Their concept of power

contains two dimensions: the structural dimension embodied in the systematic imbalances in the availability of resources, on the one hand, and the dynamic dimension that takes into consideration the scope of manoeuvre of actors within the structurally predetermined frame, on the other. The structural imbalances of power take the form of dominance and hierarchy among the national business systems where 'dominant NBSs [national business systems] invite emulation from those that are on a weaker position' (Ferner and Tempel 2006: 25). The authors also point out that 'dominance relations depend not only on raw power but also on hegemonic control of ideas and cognitive schema' (Ferner and Tempel 2006: 25). They further differentiate between 'those whose interests are bound up with the propagation of a given set of institutional rules, and those whose interests are shaped and constrained by such rules' (Ferner and Tempel 2006: 26). Based on this power analysis, the way to conceptualise a MNC subsidiary would be as a 'community of rule takers'. However, studies of subsidiaries in Central Europe indicate that subsidiaries of MNC can also become 'rule makers'. Rather than a full transfer of practices from MNC headquarters to the subsidiary, what mostly takes place is a 'hybridization' of home and host country traditions. Sometimes subsidiary practices are even implemented back in the headquarters (Meardi and Toth 2006). These findings are similar to the late findings of the 'Japanisation' debate that assesses the extent of the diffusion of institutional practices of Japanese companies to their subsidiaries abroad and finds selective appropriation of Japanese production practices (Oliver and Wilkinson 1992; Elger and Smith 1994).

After having introduced a number of more structural approaches, I now introduce a further conceptual approach that deals with the internationalisation of value chains within MNCs. The actor-driven approach does not negate the previous approaches but rather builds on them and develops them further to include another analytical dimension. It conceptualises multinational companies as arenas of interest formation and exchange between stakeholders and thereby focuses on power relations in MNCs. These concepts are also referred to as micro-contestation. Ferner et al. argue that MNCs 'are not unitary, monolithic structures but shifting coalitions of interests subject to complex micropolitical dynamics' (Ferner, Quintanilla et al. 2006: 7). This idea goes in parallel to Amoore's notion of the contested nature of the firm. She argues that internationalisation should lead to increased tensions between the 'competing social forces' (Amoore 2000). Similarly, Kristensen and Zetlin (2005: 11) conceptualise MNCs as 'ongoing political struggles over the allocation of resources'. Institutional transfer is described as 'a political and contested process [...] and

cannot be understood simply as a rational response to efficiency considerations by senior corporate decision-makers' (Ferner and Tempel 2006: 28).

This third strand of business literature takes into account the constructivist turn in social sciences. It is the contestation that takes place among opposing normative and cognitive frames and interests that is at the heart of the argument:

[o]ne of the defining characteristics of cognitive systems is that they shape taken-for-granted ways of thinking that are not necessarily accessible to organizational actors. But at the junction of two different institutional domains, previously 'invisible' cognitive schemas may be revealed through juxtaposition (Ferner and Tempel 2006: 26).

Thus, it is necessary 'to take seriously the subsidiary's scope for intentional 'strategizing' and pursuit of its specific interests' (Ferner and Tempel 2006: 24).

According to this actor-based approach, the communal reaction to the expansion of economic logic in work and employment can come from collective unity against the increased competition. It is argued that '[a] subsidiary, while itself composed of competing interest groups, may in some respects define itself as a collective interest group vis-à-vis another subsidiary of corporate headquarter' (Ferner and Tempel 2006: 24). This literature goes further than the two previous strands in identifying the role of local actors in the subsidiaries as a source of institutional innovation. In a similar vein, studying European Works Councils and the coalition building across plants within a MNC, Fetzer (2008a) identifies MNCs as a 'risk community in global competition'. Bernaciak's study on Poland (2008) supports this hypothesis. She argues that, more often than not, Eastern European unions choose to defend company interests on behalf of their subsidiaries rather than to follow the road of international labour cooperation. This actor-based approach that underlines the role of local actors in MNC subsidiaries is a valuable contribution that this study builds upon; however it strongly under-theorises normative frameworks, as interests and normative frames of local actors are assumed to be given. Interests and normative frames seem to be automatic expressions of the institutional roles that actors represent. This analytical short-cut is maybe applicable to stable institutional environments where institutional change is slow and incremental, but for post-communist Central European production locations this approach has only limited explanatory power. This is because the change in the political regime brought about a dramatic institutional shift that profoundly

altered the institutional set-ups. Since then, institutional roles of collective actors have remained fluid and vague.

Another theory of the firm that underlines the social construction of the enterprise has been the contribution by Maurice et al. (1986) who developed an ‘approche societale’ – a societal approach. Comparing work hierarchies between German and French firms, the authors discovered a ‘societal effect’, i.e. they found that concepts such as skill acquisition, promotion, wage differentials, etc. are different between similar types of firms implying that other - rather than pure market - forces have been at play. The authors identify a number of organisational and socialisation effects that explain these differences: ‘German society gives prominence to what we have called the professional domain or domain of qualification, whereas French society emphasizes the organizational domain’ (Maurice, Sellier et al. 1986: 168). While in French firms, stratification of labour force takes place through criteria and procedures of hierarchy established by individual firms, in German firms, workforce stratification ‘is determined by a unique standard external to each individual firm; the level of occupational training received’ (Maurice, Sellier et al. 1986: 168). This distinction has become a crucial dimension of analysis in the work of Marsden (1999) who distinguishes between ‘production’ and ‘training’ approaches.

The understanding of societal embeddedness by Maurice, Sellier et al. (1986) is quite close to the one adopted in this study as the authors incorporate organising logics that go beyond calculative rationales. They explain that the role that occupational training plays in Germany is not purely instrumental. The goal of training is not only to build up the skills to match certain job profiles, but a broader one that presupposes other organising logics. The system of vocational training is described as a ‘system of qualifications based on social and professional norms largely independent of any particular firm’ (Maurice, Sellier et al. 1986: 162). A set of professional norms is also used to explain what rational-calculative behaviour would not allow: German firm set up costly training programmes, but then allow their apprentices to work elsewhere.

A recurring theme of the societal approach is ‘how to compare the uncomparable’. In their understanding of societal processes, Maurice, Sellier et al. (1986) reject the universalist premise that some cross-country studies take but still look for certain generalisable phenomena beyond the specificity of a national culture (Korsnes 2000). Rather than comparing institutions that can mean different things in different contexts, such as job or

qualification, they attempt to identify common points of reference at a more abstract level, e.g. by using notions such as 'domain' that was elaborated above. These common points of reference can be translated from one society to another and thus make the uncomparable comparable. It is important to point out that the work of Maurice, Sellier et al. (1986) is based on a complex understanding of business and work environment. Rather than seeing the environment influencing the firm, they see the relationship between the firm and the environment as interdependent and reciprocal rather than structurally deterministic (Maurice and Sorge 2000). When established rules are under pressure and alternative criteria for workforce stratification, such as, for example, seniority or general work experience are advanced, the lack of legitimacy is expected to cause resistance among German workers (Maurice, Sellier et al. 1986: 170). In other words, the respective domains are constantly reconstructed. Overall, the 'approche societale' underlines the crucial role of societal embeddedness and socialisation but in the analysis of Maurice et al. (1986), professional norms and work-related norms remain a black box, a concept that is self-evident and does not need further elaboration.

To sum up, the four strands of neo-institutional literature discussed above underline different institutional features of firm governance: structural features of homogeneity vs. heterogeneity, the role of power, societal effect as well as more dynamic forms of institutional analysis such as actor-based approach. The presented approaches do not necessarily conflict with each other. More often than not they are combined and developed simultaneously. Thus, for example, Bluhm (2007) takes on board the structural power dimension but still believes that company actors have room to manoeuvre. Yet similar to the whole field of neo-institutionalism of which these strands of literature are sub-sections, even if they take on board the constructivist understanding of reality, they under-theorise the complexity of social norms and the normative dimension of action.

II. Introducing deontological ethics and value rationality

In the institutionalist literature of the firm reviewed in Section I, power, the different nature of MNC headquarters, companies' interests and the societal approach have been the four conceptual frameworks discussed. This literature has underlined the importance of the firm as a unit of analysis but its take on norms governing human behaviour has been criticised as simplistic or under-theorised. Actors' cognitive and normative schemes need to be more clearly defined especially during periods of rapid institutional change when institutional

roles are fluid and changing, as it has been the case in post-communist Central Europe. Thus, we need to take the ‘invisible’ collective cognitive and normative schemes more seriously. It is by identifying forces of societal self-protection and by fine-tuning the analysis of collective norms and organising logics in work and business that I hope to prepare the theoretical grounds for the empirical inquiry on societal re-embedding that is carried out in Part II. In this Section, this study attempts to provide a more detailed theoretical understanding of norms and values that, as I just argued, are under-theorised in the neo-institutional literature in general and in the business literature in particular.

Polanyi’s concept of societal embeddedness provides us with a good foundation for the analysis of normative frameworks. Polanyi denies the prerogative of economic rationale and argues that the economic system is run by non-economic motives. He refers to concepts such as ‘social fabric’ and ‘social ties’ and more specifically to ‘code of honour’, ‘reciprocal social obligations’ and ‘social prestige’:

[M]an’s economy, as a rule, is submerged in his social relations. He does not act so as to safeguard his individual interests in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end. Neither the process of production nor that of distribution is linked to specific economic interests attached to the possession of goods; but every single step in that process is geared to a number of social interests which eventually ensure that the required step be taken. These interests will be very different in a small hunting or fishing community from those in a vast despotic society, but in either case the economic system will be run on noneconomic motives (Polanyi 1957: 46).

Thus, the dichotomy between economic and non-economic rationales is underlined and the existence and the context-dependency of ‘non-economic motives’ is acknowledged. However, one finds only a schematic understanding of the interaction between economic and non-economic rationales in Polanyi’s work. One of the distinctions that needs to be made to better understand the interaction between different types of organising logics is the distinction between different normative underpinnings of behavioural motives. One of the main distinctions within the different schools of moral philosophy is that between utilitarian and deontological ethics. This important distinction is elaborated below in greater detail. The introduction of concepts from moral philosophy into the study of socio-economic and institutional change should enrich our understanding of organising logics and thus possibly contribute to a new perspective on Polanyi’s double-movement.

Utilitarianism refers to the fact that what is considered of value are those perceptions, beliefs and attitudes that have a consequence. In other words, utilitarian philosophy argues that the worth of an action is determined by its outcome. In philosophy, the tradition goes back to David Hume, Jeremy Bentham and John Stuart Mill who were interested in the question of how the highest level of happiness and pleasure can be achieved. Thus, Bentham was interested to identify behaviour that leads to the greatest happiness of the greatest number of people. Similarly, Mill in his essay 'Utilitarianism' published in 1863 sets out that an action is ethically right in proportion as it promotes the greatest amount of happiness. Yet while Bentham considers all forms of happiness and pleasure as equal, Mill differentiates between superior and inferior types of pleasures. Utilitarian ethics has become a cornerstone of orthodox economics, especially micro-economics, which also uses the concept of utility. Yet just a short excursion in the study of philosophy and ethics allows me to demonstrate how simplistic and limited such a conceptualisation of human agency is.

An alternative school of thought that has shown to be fruitful for this study is the school of deontological philosophy that has its roots in the German philosophical tradition of idealism. Immanuel Kant, the founder of this school of philosophy, searches in the 'Groundwork of the Metaphysic of Morals' from 1785, for a categorical imperative, the supreme principle of morality. He finds that the moral worth of an action does not lie in its purpose or consequences but rather in the principle that underlies the action. In other words, the highest moral postulate says that the morality of decisions is not based on their consequences but on their intentions. This understanding came from Kant's conviction that human beings are autonomous and free and thus are not law takers but also makers of laws. The second distinction made by Kant is that between relative and absolute ends. While the concept of relative ends refers to ends that serve to achieve some other ends, the concept of absolute ends refers to ends that are ends in themselves. Price is an example of a relative end, while human dignity is an absolute end, an end in itself. For Kant, to qualify as a moral action, the subject needs to be treated as an end and not as a means to an end (Rutgers and Schreurs 2006: 412). With this approach, Kant explicitly discloses his anti-utilitarian stance; he opposes the utilitarian position that the moral worth of an action is mirrored in its outcome or utility.

The contemporary debate between economics and other rational choice disciplines, on the one hand, and other social sciences, on the other, is a continuation of this moral philosophy

debate led more than 200 years ago between different schools of philosophy. Orthodox economics that embodies economic liberalism adopts the utilitarian notion of ‘utility’ that needs to be maximised. Yet not only orthodox economics but also some other schools of social sciences stand in this tradition. Institutional economics and rational choice neo-institutionalism use the concept of institutions but they are still confined to the utilitarian logic: they only consider utilitarian ethics when explaining behavioural motives. Thus, for Coase (1937), firms as institutions exist because transaction costs such as acquiring costly information and negotiation costs make price mechanism less effective for certain exchanges. For Williamson (1975), firms as institutions exist so that opportunism of human action can be controlled and held at bay. Similarly, for North (1990), institutions matter because they have a purpose: they reduce the level of uncertainty, solve coordination problems and encourage cooperation among opportunistic economic agents.

The institutional economics literature has also developed concepts such as social capital and trust but they remain ill-defined and fuzzy. Stiglitz points out that:

We now talk, for instance, about social capital. [...] We recognise that the manner in which and the speed with which reforms were put into place in Russia eroded social relations, destroyed social capital, and led to the creation and perhaps the dominance of the Russian Mafia (Stiglitz 2001: x).

For many institutional economists, the missing variable is the neglected state capacity: ‘rapid transformation destroys old coping mechanism, old safety nets, while it creates a new set of demands, before new coping mechanism are developed’ (Stiglitz 2001: xi). If only the Russian government had the time to put in place necessary legal and institutional infrastructure, Stiglitz (2001: xii) argues, the economic catastrophe could have been avoided. But even if these concepts of social capital and role of government have certain explanatory power, something is missing: Why did economic liberalism have these disruptive effects rather than contributing to a freer and more competitive society? Was it really just the speed and sequencing that went wrong in post-communist transition?

The rational choice school of institutionalism sees organising logics of action as equivalent to utilitarian ethics. In the definitions adopted by neo-institutionalists such as Hall and Soskice (2001) institutions always have a clear function, either to reduce uncertainty, or to exchange information, or to sanction the defection from cooperation. Thus, these schools of thought show a clearly utilitarian understanding of institutions as they relate the motives explicitly to outcomes of actions. In non-orthodox economics, on the other hand, but much

more prominently in sociology as well as historical and sociological neo-institutionalism, the utilitarian understanding of institutions is dropped. Some neo-institutionalists, such as Aoki, go beyond the rational choice and attempt to identify common features of institutions. Thus, for example, Aoki (2001) describes institutions as self-sustaining systems of shared beliefs that shape agents' incentives and strategies during periods of institutional stability, while during periods of institutional change, when economic agents become rule-makers rather than rule-takers, new institutions would emerge as equilibrium strategies of actors (Aoki 2001). Amable who is also interested in institutional change distinguishes between 'tight fit' and 'loose coupling' of institutions as crucial explanatory variables of institutional complementarity that can explain the path of institutional change (Amable 2003). Yet these authors still have problems explaining institutional change and their conceptual contribution to the institutional theory remains somewhat de-contextualised. Overall, similar to the Varieties of Capitalism literature, the institutional complementarity literature remains, despite its popularity, an under-defined concept.

Only rarely have social science scholars attempted to shift the attention to the question of ethics and normative frameworks. An important contribution in non-orthodox economics has been the book 'The moral dimension' by Etzioni who argues that behavioural motives are morally right 'when they confirm to a relevant principle of duty' (Etzioni 1988: 12). Etzioni proposed deontological social sciences that would give a more explicit place to Kantian deontological ethics. Yet his book is highly a-historical as it manages to underline the theoretical importance of deontological ethics but does not provide any historically and culturally bound evidence to operationalise the argument. The clearest example of the philosophical divide that I just discussed being translated in social sciences has been the sociological thinking of Max Weber. Weber's work has been preoccupied with the motives of social action and the foundations of social authority. In his work 'Economy and Society' (1978), first published in 1922, that is mostly known for its conceptualisation of the state and political power, Weber also discusses the concept of social action. He defines social action as a meaningful action that relates to the behaviour of other people. He distinguishes between four types of social action: instrumentally rational, value rational, affectual i.e. motivated by feelings and traditional i.e. motivated by habit. Thus, among four different motivations of social action, Weber distinguishes between two types of rationality: instrumental and value rationality ('Zweck-' versus 'Wertrationalität'). The former presupposes that the ends are given and what needs to be decided upon are the appropriate means to reach them. In other words, the meaning of the action is its outcome or

consequence. The value rationality, on the other hand, describes motivation that arises out of adherence to a higher – religious, ethical or aesthetic – value, independent of the costs a related action might impose. Thus, these two types of rationality that Weber identifies correspond very closely to utilitarian ethics, on the one hand, and Kantian deontological or sometimes called ‘idealistic’ ethics, on the other.

However, Weber’s thinking as a social scientist has been different from Kant’s moral philosophy. Weber did not share Kant’s idea of hierarchy of values and rejected the postulate of autonomous origins of moral laws that people can give to themselves (Rutgers and Schreurs 2006: 417). Weber considered instrumental rationality if not superior, then at least a more exciting subject to study. Instrumental rationality interpreted as a ‘degree of control of life by conscious ideas’ (Swidler 1973: 39) was the ‘real’ rationality for Weber. His study ‘The protestant ethics and the spirit of capitalism’, originally published in 1905 and recognised as one of the central milestones of economic sociology, elaborates on the role of the Protestant religion in the strengthening of instrumental rationality and thus fostering capitalist development. Weber argued that the religious system of Protestantism fostered this type of rationality more than any other system thus establishing the foundations for a capitalist society (Weber 2002).

Even if his main contribution was to exemplify the role of instrumental rationality in the construction of the legal-rational authority that has been the basis of modern capitalist societies (Weber 2002), Weber has not completely ignored the role of value rationality. Weber points out that in most cases the social action is a mixture of several types of motives and rationalities. He thus sees deontological values and organising logics, on the one hand, and instrumental rationality, on the other, as two parts of one whole that depend on each other. He believes that ‘there is always a sphere of social life which is non-[instrumentally] rational, and it is on the preservation of this sphere that the [instrumental] rationality of the rest of the system depends’ (Swidler 1973: 41). In his book ‘Science as a vocation’ (Weber 1930), originally given as a lecture in 1918, Weber underlines that values are essential preconditions for scientific objectivity, yet science cannot justify why it is worth holding a certain position. In other words, science itself does not answer the questions of final aims but only those of tools. Thus, science is not based on pragmatic motives alone. Using the example of science, Weber demonstrates his thesis that utilitarian and deontological ethics are two separate and sometimes competing, but also interdependent parts of human action.

Weber's concepts of instrumental and value rationality allow translating the philosophical concepts of Kantian idealistic philosophy and English and Scottish tradition of utilitarianism into the terms of social sciences. When following utilitarian ethics or Weberian instrumental rationality, agents engage in cost-benefit analysis of their actions, while deontological ethics describes social action that arises out of a moral commitment where certain untouchable values rather than cost-benefit rationales guide the way. Thus, the importance of value rationality and the normative dimension for social sciences have been established and the philosophical dichotomy between deontological and utilitarian ethics has been translated into the language of social sciences. However, let me recapitulate what value and instrumental rationality mean in social sciences. Two issues seem important. First, the concepts of social sciences are not based on value judgements, i.e. it is not possible or desirable to see different rationalities and organising logics in a hierarchical order. This is the first difference to the Kantian approach. Second, the two logics are not seen as self-exclusive but as complementary.

But how does this discussion of different schools of ethics and their interpretation by Weber as a social scientist relate to Polanyian double-movement in post-communism? The link from Weber to post-communist transition is a quite direct one. The underlying logic of economic liberalism is the utilitarian understanding of social action. To illustrate this point I refer to the study of Michel Albert. I already mentioned Albert's book 'Capitalism against capitalism' (1993) that underlines the role of non-economic factors in the social organisation of economic life. Yet his contribution goes one step further as the author attempts to differentiate among various shades of non-economic logics, something only very few scholars in this field have done. Thus, he develops a taxonomy of three types of assets: negotiable, mixed and non-negotiable. Negotiable assets are those with a higher degree of commodification, while non-negotiable assets have a low degree of commodification. Most interestingly, this taxonomy is explicitly based on organising logics and values and their differences between the neo-American and the Rhine model of capitalism.

Some assets, by definition, cannot be transferred from one owner to the other. They may be personal (love and friendship, generosity and honour, for example) or collective (democracy, public freedoms, human rights, justice etc.). They are what may be termed non-negotiable (or non-exchangeable) goods (Albert 1993: 101).

Thus, utilitarian ethics dominates when housing, education or health are partially treated as a market commodity, according to cost-benefit analysis of inputs and outputs. Deontological ethics dominates when the same 'assets' are treated as non-negotiable, i.e. when other organising logics and values dominate and do not allow cost efficiency to take over. In his study, Albert describes a substantial difference between the two socio-economic systems. While the majority of fields are in the category of negotiable assets in the neo-American model, in the Rhine model these goods are considered and treated as mixed goods. The presence of the high number of mixed goods in the Rhine model is explained by two 'sets of values': egalitarianism and collective solidarity (Albert 1993: 124). The principles of economic liberalism that have been dominant in the neo-American model, on the other hand, correspond to the stronger dominance of utilitarian ethics than it would be the case in the Rhine model. Thus, while the majority of authors writing about non-liberal capitalism underlined the role of structural factors that cause 'institutional complementarity', 'institutional interdependence', or 'institutional interlock', Albert is one of the rare few who talk explicitly about values and non-economic organising logics. This is an important contribution in which the dichotomy of different sets of organising logics clearly comes out, even if Albert's share of theorising is low and he does not develop a fully-fledged theory of norms and organising logics.

Other disciplines rarely make the distinction between deontological and instrumental organising logics or between value and instrumental rationality when studying organising logics as underlying motives of group, enterprise, or government behaviour. One of the rare exceptions are the writings by political scientists March and Olsen. The authors first introduced their thinking on behavioural logics in the book 'Rediscovering institutions' (1989) and developed it further in the subsequent writings. March and Olsen distinguish between the logic of consequence and the logic of appropriateness. The former takes place when actions are driven by a logic of anticipated future consequences and prior preferences, while the latter is closely related to actors' norms and identity. The authors argue that:

humans maintain a repertoire of roles and identities, each providing rules of appropriate behaviour in situations for which they are relevant. Following rules of a role or identity is a relatively complicated cognitive process involving thoughtful, reasoning behaviour; but the processes of reasoning are not primarily connected to the anticipation of future consequences as they are in most contemporary conceptions of rationality. [...] To act appropriately is to proceed according to the institutionalized practices of a collectivity, based on mutual, and often tacit,

understandings of what is true, reasonable, natural, right and good (March and Olsen 2004: 4).

Economic sociology also made an important contribution of re-introducing organising logics and values into the study of societies and distinguishing between economic and non-economic rationales. An important study is that by Boltanski and Thévenot. Their book 'On justification: economies of worth' (2006), first published in 1991, is relatively close to the French school of heterodox economics known as 'l'économie des conventions'. The authors' argument is that a social order contains multiple principles of valuation, multiple 'orders of worth'. They distinguish between six orders of worth: market logic, industrial logic, civic logic, principles of fame, loyalty, and inspiration. What makes this French school different from many other sociological works is that the authors do not consider values as separate from calculative rationality but as a constitutive part of it. Thus, the moral judgement is not seen as opposing rationality, but rather rationality only becomes a useful concept as long as it is embedded into the boundaries of one or another order of worth.

The contribution of Boltanski and Thévenot on the 'economies of worth' can be seen as complementary to the contribution of March and Olson. The strength of the March and Olson approach is in the simple dichotomy between the two types of organising logics. The two logics can be translated to represent the movement and the counter-movement in the Polanyian conceptual framework. To operationalise the dichotomy between deontological and utilitarian organising logics, the present study assumes that choosing the means of action under a pure efficiency rationale or engaging in cost-benefit analysis is a form of Weberian instrumental rationality, a form of utilitarian ethics and an example of the logic of consequence. On the other hand, when deontological ethics or Weberian value rationality prevails, the non-economic moral commitments imply a rejection of calculative approaches (Etzioni 1988) and put values at the centre-stage. The strength of the 'economies of worth' by Boltanski and Thévenot approach, on the other hand, is in its explicit dealing with different forms of the logic of appropriateness that are, by definition, context specific.

III. Theorising the normative dimension of business and work

The present study builds on writings discussed in the last Section. The Kantian and Weberian concepts of social action and the of underlying organising logics as well as more recent contributions of March and Olson (2004) and Boltanski and Thévenot (2006) are translated in the reality of post-communist transition and the world of work. The study insists, in the spirit of Weberian distinction between instrumental and value rationality and in line with the dichotomy of March and Olson's logics, on an inherent tension between the instrumentally driven organising logic and the value driven organising logic. At the same time, in the spirit of 'orders of worth', as developed by Boltanski and Thévenot, the study provides a more detailed analysis of the different forms of value rationality and of the logics of appropriateness.

If we consider the normative foundations of policy reforms of economic liberalisation and introduction of markets in Central Europe, the picture that emerges is that of strong utilitarian ethics being the driving force behind the economic reforms in the field of enterprise restructuring, work and employment. In other words, economic liberalism that came to dominate policy reforms in Central Europe can be understood as an expansion of the instrumental rationality and of the logic of consequence, in relation to questions of the law of value. The arguments used to justify privatisation and restructuring of state owned enterprises were all made with reference to cost-efficiency and the law of value. This is what this study refers to as 'economic organising logic'. The non-economic organising logics refer, on the other hand, to all non-market 'orders of value', all logics of appropriateness and value rationality. It is only when dealing with the transformation process and with the daily choices of economic and enterprise policy that political and economic decision makers slowly abandoned the simplistic understanding of 'the imperative of the market forces' in favour of more complex and multi-faceted understanding of firm functioning. Non-economic enterprise organising logics, embedded in the state socialist legacies, functioned as constraints or limitations to the newly emerged dominant logic of economic liberalism. Thus, they represented a form of Polanyian societal re-embedding.

An important caveat that needs to be mentioned is that a part of the post-communist reforms that were associated with an idealised form of economic liberalism mirrored the intrinsic values of policy makers that economic freedom is better than state intrusion and Communist Party control : especially as market economy and democracy have been closely associated with each other, the value of liberty was associated with both of them. Thus,

economic liberalism has originally been, to a certain extent, an intrinsic value, a logic of appropriateness. Economic liberalism was thus originally driven by the belief that price mechanism and the law of value are the natural principles of social order that should not be constrained by other principles. In these discourses, markets are thought of as naturally emerging and liberating, while social constraints as artificial and confining. The following quote by a Hungarian academic captures this way of thinking:

Free market capitalism and socialism are not two symmetrical socioeconomic alternatives, equally analysable and debateable. One is spontaneous and self-organizing social order, an unintended result of the free and unencumbered human action. [Capitalism] emerges spontaneously, over and over again, whenever economic agents become free and autonomous decision-makers. The other never emerges spontaneously and must always be designed, implemented and redesigned by social engineers (Zeleny 1993: 46-47).

Thus, any social regulation was considered as artificial and man-designed feature of social engineering while 'markets' were expected to be left to their devices. In this discourse, economic efficiency is perceived to be a goal in itself, not as means to something else. In a similar vein, Bryant and Mokrzycki argue that:

'[s]ocialist society' was treated as the temporary result [...], with little integrity of its own and little ability to sustain itself under normal conditions. It seemed to be composed of individuals and primary groups who would be willing, if not happy, to abandon whatever macro-sociological categories they found themselves in under socialism in order to pursue their interests in a rational way and to regroup spontaneously in a 'natural' order with the middle class to the fore. It was this view of an amorphous and plastic society, distorted by the heavy hand of the Communist Party-state that the Eastern European reformers had in mind as they worked out the details of their plans for reform. They took for granted that what was needed was to set people free by removing the economic and political impediments to the natural expression and articulation of individual interests. Accordingly, the core of the reform plans was *liberalization*, one might almost say *liberation* (Bryant and Mokrzycki 1994: 7-8).

Thus, economic liberalism, understood as economic freedom, has originally been an intrinsic value, a logic of appropriateness for many policy makers, especially during the early transformation, when economic liberalism was an idealised, rather than experienced, concept standing for more individual freedom. This liberating side of economic liberalism has been crucial in the early stages of economic and enterprise reforms, when it provided a justification for liberating the economy from the grip of the Communist Party.

However, this political goal was relatively quickly achieved and the instrumental side, the logic of consequence related to the law of value embodying economic liberalism has become more visible: it started to dominate and negate other final ends, such as other societal organising logics and values. Once economic reforms advanced and conflicts between the organising logic of economic liberalism and other organising logics became more pronounced, the instrumental and utilitarian nature of economic liberalism became more visible. This made the distinction between value rationality and instrumental rationality easy to trace: instrumentality in relation to cost efficiency and market viability has increasingly become the pre-dominant organising logic of economic and political decision makers, with no reference to other organising logics being made. It is only with time that decision makers learned to balance their original idealised understanding of 'market forces' with other societal imperatives, norms and organising logics. The non-economic enterprise organising logics thus became constraints or limitations of the newly emerged dominant logic of economic liberalism.

Conclusion

Section I of this Chapter reviewed the institutional literature of the firm and underlined the importance of the enterprise as a unit of analysis. Yet its conceptualisation of organising logics governing human behaviour has been criticised as simplistic. I acknowledged that actors' cognitive and normative schema needed to be more clearly defined, especially when studying a period of a rapid institutional change. Section II attempted to provide a more detailed conceptual understanding of organising logics and values. It introduced the dichotomy between deontological and utilitarian organising logics, elaborating that when actions are seen as means to achieve some other goal they correspond to Weberian instrumental rationality and to utilitarian ethics, while, on the other hand, deontological ethics and Weberian value rationality prevail when actions are seen as valuable, as ends in themselves, rather than means to some higher ends. Later studies of political sciences and economic sociology, in particular the studies on the logic and appropriateness and logic of consequence by March and Olson and the studies on the 'orders of worth' by Boltanski and Thévenot were introduced. Section III provided the first idea about how to operationalise the concept of the non-economic organising logics in the post-communist context. The non-economic organising logic of the firm, the logic of appropriateness in work and production, is conceptualised as setting limits and constraints to the expansion of economic liberalism.

The legacy of state socialism as a system rich in non-economic institutions has played an important role in this process. By identifying the three non-economic organising logics that existed during state socialism, Chapter III prepares the ground for Chapters V, VI and VII that operationalise the Polanyian double-movement of dis-embedding and re-embedding in the context of post-communist production and work.

III. Embedding the normative: legacies of state socialism

The aim of this Chapter is to combine Polanyi's argument of societal embeddedness with Weber's concept of value rationality introduced in the previous Chapter. If one takes these two strands of literature seriously, it is important to know which rationalities and 'logics of appropriateness' (March and Olsen 2004) have been important during the post-communist transition. In other words, it is important to embed the study into a specific historical socio-economic context. To do that this Chapter explores certain state socialist organising logics that existed in Central Europe. I elaborate on the three state socialist non-economic organising logics of production and work. However, there is no automatism in the evolution of non-economic state socialist legacies: while certain non-economic organising logics could be partially preserved and re-configured, others represented the building blocks of economic liberalism and the law of value. In other words, societal embeddedness is not equal to causality; however, it reduces the number of available behavioural and normative options in the repertoire of stakeholders and makes certain choices more probable than others. To recapitulate, enterprise organising logics are defined as different types of rationality (value or instrumental), principles of valuation, logics of appropriateness or consequence and as different orders of worth that structure social reality (Albert 1993; March and Olsen 2004; Boltanski and Thévenot 2006).

The Chapter is organised as follows: Section I sets out the main features of state socialism system of production and work; it elaborates on the non-economic nature of state socialist firms and explains how the state socialist firm fitted into the specific context of state socialist production regime. Section II introduces the typology of three non-economic work and employment practices in state socialist firms.

I. State socialist system of production and national differences

During state socialism, the official ideology of the Communist Party-led states dominated employment and production in Central European countries. But what exactly was the nature of surplus extraction and utilisation in relation to labour? Despite certain differences that existed within the state socialist bloc that are discussed later in this Chapter, some features of production regimes have been similar across countries. Although the late state socialism

was characterised by a much weaker ideological doctrine than often presumed by common understanding, the control of the Communist Party over the economic sphere of production was significant. The Party grip on economic and enterprise life remained strong. All countries had a mono-party governing elite at the top that was responsible for the production sphere. It was the Party's function to make all high-level appointments in political and economic spheres (Soulsby and Clark 1996). These appointees, also known as the 'nomenklatura', were entitled to political power, economic responsibility and a number of privileges, yet they still had to comply with the hierarchical structure of the Party that was the authority of the last resort on any public issue (Ashwin and Clarke 2003: 17).

The ideology in everyday life consisted of a code of rules of conduct from which divergences were not allowed. Ironically, while formally Marxist-Leninist ideology was the main pillar from which the state bureaucracy derived its legitimacy, it was not by the power of principles and ideals that this ideology worked, but by a coercive adherence to the behavioural rules once identified by the Communist Party.

While 'socialism' was still an ideal for the Western left, nobody believed in the ideology of 'real socialism' in the East; moreover, nobody was supposed to believe, as long as official behaviour conformed to the party standard (Lavigne 1995: 4).

Thus, for Lavigne, the gap between intrinsically held norms and social rules at work is large. Similarly, Lampland also sees a substantial gap between the official Party discourse and social reality. She describes 'rampant individualism and utilitarianism of everyday life' in Hungarian rural communities in the early 1980s (Lampland 1995: 1). Codagnone, on the other hand, does not completely discard the inter-dependency of official, state imposed rules and social norms. He argues that:

If the ideology is allegedly based on the intention of leading society towards a telos – a higher goal – then we may talk of a 'teleological' ethos. Such an ethos was created in the Soviet Union by a party that considered itself the charismatic agent of social development (Codagnone 1995: 68).

The true picture probably lies somewhere in between the two opinions: certain organising logics of the system became internalised and became ends in themselves, while other organising logics were means to certain ends such as the construction of communism or just career advancement.

The official ideology in Central Europe was dominated by the goals set by the Communist party that were other than the law of value and thus enterprise institutions can be described as mainly non-economic. Despite certain differences in political regimes across the state socialist block that are discussed later in this Chapter, a number of non-economic features of production system was shared by most state socialist firms, especially those in the manufacturing sector. One of the main institutional differences in comparison to firms in capitalist societies was that firms were in public ownership. Furthermore, management capacities were low, especially in comparison to oversized bureaucracy, while marketing functions hardly existed. But also the nature and the logic of state socialist firm was profoundly different from capitalist firms. The main stylised fact is that rather than the extraction of surplus, plan fulfilment was the dominant pressure for company management. This has, however, been interpreted differently. Arnot, on the one hand, sees state socialist production regime as fundamentally similar to the capitalist production regime. He argues that the orientation towards plan fulfillment was also extraction of surplus, it just took a different form and could be described as politicised extraction of surplus (Arnot 1988: 30). Clark, on the other hand, sees plan targets and administrative control as fundamentally different to the capitalist firm. According to him, the final goal of firm's existence is different between a state socialist and a capitalist firm. Plan targets, mostly expressed in units rather than productivity measures, were the central orientation point for enterprise managers. Thus, he argues, creation of surplus value was not a priority in the state socialist mode of production. This implies that as the production system was not ruled by the law of value, production inputs such as capital, labour and environment did not have market valuation. '[...] Soviet enterprises most certainly were not subjected to the law of value, and so to the production and appropriation of surplus value' (Clarke 1993: 10). Despite their disagreement on the extent of non-economic factors, both authors agree that state socialist production regime and its transactions had a strongly non-economic nature.

In state socialist production system, relationships between producing firms and customers were quite different from those in market economies. Production inputs, such as raw or intermediate materials, energy, as well as labour, were determined by technical and administrative or outright political organising logics. Thus, Lavigne finds command economies comparable to 'a pervasive state bureaucracy' (Lavigne 1995: 5). Similarly, Kornai (1992) speaks about 'bureaucratic coordination'. In inter-firm relations, there was practically no direct interaction between firms, and links between producers, suppliers and clients were virtually non-existent as central planning authorities were the intermediaries.

Firms functioned as highly vertically integrated networks and there was practically no replacement for any given supplier or customer. The relationship between central planners and enterprises was characterized by enterprises being controlled by industrial ministries (Clarke 2004). Goods were mostly distributed through a central planner without an intermediary of wholesalers. The central administration consisted of a great number of sectoral and functional agencies. Functional agencies such as the Planning Office, the Investment Bank or the Labour Office all had coordinating functions, while the Office of Prices fixed wholesale and retail prices. The Agencies 'facilitated' production and distribution processes by linking material and technical resources of buyer and seller firms. In the financial sector, a similar bureaucratic hierarchy existed. Credits were allocated through the Central Banks, called monobanks, the only institutions allowed to provide credits.

In contrast to the capitalist production system where prices have to stand 'the test of markets', in command economies price mechanism played a very limited regulatory role in the production process. Prices for a large number of products were set administratively. What mattered for price setting were political priorities rather than economic efficiency. Furthermore, the system of pricing was set up in a way that each enterprise would achieve economic balance at the end of a year. This accounting system led to imbalances in the real sector: between consumers and producers, for example (Clarke 1993). Thus, prices had a merely nominal significance in the production process. The situation was only slightly different with regard to consumption: wages implied a transfer of purchasing power but consumption was restricted by the access to and availability of goods.

This industrial state policy led to a very low level of firm turnover that allowed realising the promises of employment stability. However, command economies with their administrative price and production output setting have been extensively criticised and held responsible for the breakdown of the state socialist economic system. Thus, Pollert believes that this mode of production contributed to distortions, hoarding of labour and material and to production of goods for nominal plan fulfillment (Pollert 1999a: 53). Kornai (1980), one of the most prominent critics of planned economies, argued that the system of administrative control led to a 'shortage economy'. He also coined the expression of state socialist enterprises having 'soft budget constraints' as that they were 'bailed out persistently by state agencies when revenues did not cover costs' (Kornai 1998: 12). All these criticisms have been mobilized to explain the breakdown of state socialism but if

taking them at face value, what emerges is an obvious presence of numerous non-economic firm organising logics. Thus, administrative controls and state financial instead of market competition support were used for managing the production process. This contributed to firms being ‘taken out of market competition’; practically all pressures and constraints imposed on firms came from state administration.

What emerges is a unique nature of the state socialist firm in comparison to the capitalist firm: state socialist production system was dominated by non-economic organising logics. Central plan was not just about five-year production plans. It was an alternative way of managing supply and demand, a way that did not use scarcity and efficiency as main motivations of resource allocation but was to a larger extent driven by ideological reasoning. I showed the pervasive role of political and administrative planning which ignored price mechanism as mechanism of resource allocation. But what exactly does this mean at the enterprise level that production inputs, such as capital, labour or environment did not have market valuation? As far as capital is concerned, Clarke explains that even if enterprises made profits and produced surplus, these profits had a purely formal significance. The residual profits were appropriated by the state. ‘The enterprise has user-rights over its means of production, but the means of production did not function as capital’ (Clarke 1993: 12). Innovation practices were similarly dominated by non-economic rationale. They were ‘driven by process innovation, embodied in the installation of new production facilities or the modernisation of existing plant and equipment, based on the technical rather than the economic evaluation of innovations’ (Kabalina and Clarke 2001: 24-25).

The main purpose of this Chapter is to underline non-economic enterprise organising logics that were common during the late state socialism. The Chapter elaborates on three non-economic organising logics of the state socialist enterprise. Enterprise in state socialism functioned as:

- (i) An authoritarian paternalist;
- (ii) A source of competitive industrial capabilities; and
- (iii) A discretionary bureaucracy.

These three non-economic enterprise organising logics are discussed in this Chapter. An important caveat needs to be taken into account. The state socialist firm, as described in Section II, is close to an ideal-type state socialist firm. In order to underline the similarities

that existed within the state socialist bloc this picture of state socialist firm downplays certain national specificities. Yet, for the reasons of completeness it is important to be aware of national differences in production and work organisation across the three countries studied. The following paragraphs provide a short overview of main national differences in work organisation and production system.

The semi-totalitarian nature of state socialist production system was the result of a crisis of the system and its subsequent restoration. In former Czechoslovakia, a certain liberalisation of the political regime took place in the mid-1960s. The most important proposals of reforms were made in the economic sphere. In 1964, new principles of industrial management and price setting that would make the use of productive resources more cost-efficient were actively discussed. Decentralisation of the decision making and introduction of market mechanism in resource allocation and price and wage setting were at the core of the reforms introduced in 1966. The number of regulatory measures was reduced from 1 200 to 67, output targets were no longer set, while the factors of production could be combined according to the priorities of individual enterprise (Lane 1976). Wages were calculated according to the turnover of individual enterprise rather than on the basis of plan fulfilment. Yet while enterprise level decision making was largely decentralised, the macro-economic policies remained the priority of the state. Thus, regional development priorities, trade and capital markets, distribution of national income between consumption and investment, and price and wage setting remained in the hands of the central planners (Lane 1976).

The economic reforms were closely linked to the demands of greater societal pluralism and even democratic elections of the parliamentary representatives which threatened the Czechoslovak official doctrine of democratic centralism. After the 'Prague spring' of 1968, enterprise reforms were brought under a stronger Party control. The revived stricter political order, known as 'normalisation', 're-established the political and economic regime as hierarchical, centralised and autocratic' (Soulsby and Clark 1996: 231). Yet a part of system's legitimacy was for ever gone.

The process of 'normalisation' thoroughly undermined the relationship between the political elites and the citizens. The ensuing crisis of legitimacy was reflected in enterprise activities and employment relations, as the association of key enterprise managers as nomenklatura with the unpopular regime. This legacy of illegitimacy and mistrust was a special feature of Czech enterprise relations, even to the extent

that working hard was seen to be an act of support for the regime (Soulsby and Clark 1996: 232).

However, among the three countries considered, the Czechoslovak production system remained the closest to the original Soviet production model.

Poland and Hungary both had political systems that had undergone a more profound liberalisation significantly affecting production and work. The introductions of workers' self-management in Poland in the early 1980s and of the New Economic Mechanism in Hungary in 1966-1968 were important milestones that limited the role of the central planning and the power of the Communist Party. In Poland, economic reforms put in place in the early 1980s were expected to bring a greater managerial autonomy and a greater role of self-financing and of self-management in state enterprises. The compromise on enterprise reforms between the independent Solidarity trade union and state officials of the Jaruzelski regime was reached in September 1981. This compromise set out to transform the traditional command system of production into a new system that would combine market and planning elements. It restricted the role of the political and administrative centre to the long-term, macro-economic planning, while enterprises were expected to operate according to their own production plans (Bielasiak 1989). Furthermore, the compromise made an explicit reference to fiscal discipline, while profitability became the main goal of enterprise activity. The new legislation on enterprise governance included an extensive participative element as enterprises were to be governed by the enterprise manager together with a self-constituted employee body, such as general worker assembly or employee council. These self-management bodies were to enjoy significant competences such as the right to undertake initiatives and evaluations in all enterprise affairs. The enterprise manager was to be selected by the workers' council in an open competition in all but most strategic companies of 'national importance' (Bielasiak 1989). However, while enterprise reforms of increased self-financing and greater enterprise autonomy were implemented from January 1982, the reforms related to self-management were severely curtailed after the imposition of martial law in December 1981. In the process of 'normalisation', the state control over enterprises was re-established while participatory institutions and independent organisations were banned.

Formally, Polish government continued to show commitment to greater enterprise autonomy and decentralisation of central planning but the introduction of the law of value has been limited:

Autonomy for these firms meant only a parody of the behaviour of independent, profit-oriented, risk-taking enterprises. Unlike their counterparts in the market-dominated economy, they were operating within an environment in which the overwhelming majority of rewards and dangers came from central administrators. Enterprise management might have the authority to make many decisions about output and prices, but it would not base these decisions on market signals, since in a seller's market the problem of unsold goods almost did not exist. Self-financing meant that the old bargaining game that firms had previously played with central planners would now be played for credits, tax breaks, and subsidies with a multitude of state agencies. [...] [T]hese firms could not turn into efficiency-maximizing, market-responsive production units, since they faced neither tight budget constraints nor a competitive market. The preservation of paternalistic links between state bureaucracies and enterprises ruled out any possibility of a tight budget constraint since, in the end, no state agency could refuse the necessary tax break or subsidy to an enterprise in its care (Castle 1996: 216-217).

Some observers even believed that the command economy features were reinforced rather than weakened. Over 300 laws and 12 000 decrees were passed to regulate economic activity. Originally presented as temporary measures during the martial law, many of these laws became permanent (Bielasiak 1989). Furthermore, operational practices of the state bureaucracy in relation to production targets, the use of resources and price setting effectively annulled the formal enterprise autonomy.

The Hungarian reformist project in the spheres of economy and production was certainly the most far-reaching. Initiated under the Kadar leadership in 1968 it had three objectives: '(1) to decentralise [...] Hungary's economy; (2) to harness private economic activities without their threatening the primacy of the state; and (3) to depoliticize societal affairs' (Volgyes 1989: 26). The reforms were characterised by an abolition of the imperative planning in state-owned firms and by a greater reliance on the price mechanism in the allocation of productive resources. This led to a 'dual dependence' of companies: on the state bureaucracy, on the one hand, and suppliers and customers, on the other (Kornai 1986). In addition, firms were allowed to keep some of their profits and firms' discretion in terms of investment decision-making increased. Also, while before the economic reform, company performance and the wage fund were defined by the central planner so that 'profits were not considered as income-regulating factors' (Ferge 1979: 177), after the reform, profit orientation became one of the major factors in the wage setting process.

Some argue that even before the reforms, the law of value was highly predominant in the Hungarian enterprises as blue-collar work was dominated by a wage setting system based

on piece-rate production. Individual wages could even be cut by decreasing the piece-rates or by decreasing wages per unit of output (Hethy and Mako 1974). Yet, despite its apparent economic rationale, the cost-efficiency logic expressed through the piece-rate wage payment system was overridden by a number of factors. First, each worker had a personal wage rate defined through his/her seniority and skill level (Hethy and Mako 1989). Second, there were political pressures to maintain wages close to the average wage in order to keep wage differentials low. Compared to the immediate post-war period, these pressures became weaker during the late state socialism, but they did not disappear completely (Ferge 1979).

Another important development in workplace management practices in Hungary was for-profit work sessions. In 1982, a new law introduced further elements of market economy into the centrally planned production system by allowing the workers to work 'for profit' during the overtime hours thus introducing the economic enterprise logic directly into the factory (Stark 1986). Yet these 'enterprise business work partnerships' remained limited to the overtime hours and weekends. They were also highly dependent on their enterprise as they often used the equipment of the company and required managerial permission to establish the 'for-profit' work sessions (Kornai 1986). Thus, overall, despite introducing certain market-based logics such as the price signalling mechanism in wage setting and for-profit work practices, the dominance of the bureaucratic control over production and work remained unquestioned also in Hungary.

Thus even the most advanced example of economic and enterprise reforms that could be observed – the Hungarian economic reforms of the New Economic Mechanism known under the name of 'market socialism' (Kornai 1990) – did not get rid of the main features of the Soviet central planning. Although the law of value became a more prominent organising logic, the non-economic organising logics did not disappear. Direct bureaucratic regulation and control over composition and quantity of output, agreements with suppliers, technological choices, hiring and firing of labour was replaced through indirect one (Kornai 1990), the tax system remained unpredictable and ad-hoc as, at times, firms could be forced to pay more taxes, if central authorities felt that a firm had 'too much money'; on the other hand, firms experiencing financial difficulties were sometimes granted exemptions. Similarly, while investment decisions could partially be made at the company level, four-fifth of the overall investment decisions were still made by the central planner. And as far as firm profitability measures were concerned, profitability became only to a certain extent

a performance indicator as firms did not become genuine profit maximisers. The famous ‘soft-budget constraints’ continued to exist:

In principle, the firm should cover expenditures from revenues made on the market. In practice, earnings from the market can be arbitrarily supplemented by external assistance. [...] The state bureaucracy exhibits a paternalist attitude toward state-owned firms (Kornai 1986: 1697-8).

Thus, the role of the price mechanism became more prominent, but it was still not decisive in the resource allocation as the overwhelming amount of production inputs and outputs continued to be determined centrally. The productionist attitude was preserved in the paternalist attitude towards state owned firms. Furthermore, industrial production remained skewed in favour of large firms. Finally, the financing system of banks continued to act as

credit-rationing administrative authority and not as a genuine bank following commercial principles [...]. It is strongly connected with the planners’ and the other authorities supervision of the state-owned firms (Kornai 1986: 1696).

Despite several waves of liberalisation attempts Central European state-owned enterprises have preserved a number of non-economic enterprise organising logics. In the field of work governance and benefits, the role of non-wage economic benefits such as vouchers for holidays, transport, sport facilities, child care facilities that were managed by trade unions remained a common phenomenon. Also, trade unions did not protect workers in cases of conflict as they had all strata of enterprise hierarchy from workers to high management in their ranks (Hethy and Mako 1989). Rather, trade unions saw their role in administering the welfare benefits and ‘managing labour on behalf of the director’ (Pravda 1981: 57). A common phenomenon on work organisation was that despite trade unions having the ‘production’ function rather than ‘worker protection’ function, the power between the management and the shop floor was relatively balanced due to the high autonomy of work organisation (Hethy and Mako 1989). Due to this high autonomy and informal organisation even piece-rates were set ‘in accordance with the bargaining process’ (Hethy and Mako 1974: 154) between the workers and the management. The constant shortage of skilled labour and high turnover rates increased the bargaining power of workers.

While the state-owned sector remained under the more direct bureaucratic control and thus did not divert very far from the original Soviet model, an important difference between Polish, Czechoslovak and Hungarian models of production, on the one hand, and the Soviet

one, on the other, was in the non-state sector, in particular in the agricultural sector. In Poland, practically the whole agricultural sector remained privately owned, while in Hungary, cooperatives dominated the agricultural sector and certain market mechanisms were established early on. Thus, compulsory delivery quotas at low administratively set prices that covered the largest share of agricultural production were abolished as early as in the mid-1950s. Other non-state trades were in the field of small shops, restaurants, construction but with a maximum number of employees in an enterprise being limited to seven, these sectors remained marginal. In 1984, 165,000 people in Hungary worked in the formal private sector (Kornai 1986: 1705). Thus, overall, in all three countries considered, the share of the private sector remained limited and mainly restricted to the agricultural sector.

To sum up, even if the semi-totalitarian spell weakened early in Soviet satellites in Central European allowing, as Hankiss describes it, 'the inescapable compulsion to think in alternatives' (Hankiss 1990: 7), in none of the three countries studied the deviation from the Soviet model of production and work was as extensive and profound as it was in the Yugoslav case (Árnason 1993: 148). Production to plan rather than to market with all its implications that were just elaborated represented the dominant non-economic enterprise organising logic.

II. The three non-economic organising logics of state socialist enterprise

The first non-economic enterprise institution that I discuss is that enterprise is perceived as an 'authoritarian paternalist' (Clarke 2004: 407). This concept can be broken down into two institutions: stakeholder organising logics related to social and work provisions, on the one hand, and organising logics related to the company governance, on the other. As far as the first dimension is concerned, by law, jobs were guaranteed and practically no unemployment existed. The pressures of marketisation of labour power were reduced due to full employment and the state guarantee of employment. Another important phenomenon of the state socialist socio-economic regimes was the fact that enterprises were not only production sites but they also had important functions in the state's welfare policies. They provided social security, holiday homes, housing, child care facilities, social clubs, sports facilities etc. (Clark and Soulsby 1998). By adopting this form of 'enterprise paternalism' (Ashwin 1998: 191), enterprises became mediators of state protection and social benefits.

The relation was paternalistic as workers materially depended on enterprises due to the overall difficulty of access to certain facilities and services in a partially non-monetary economy.

The second dimension of the ‘authoritarian paternalist’ firm is related to the issues of enterprise governance. The idea of pluralism at a work place was unknown and decisions were made by a company director and thus the Party elite. Although in some capitalist firms, too, the authority of a CEO is hardly ever challenged, the extent of his/her power is nevertheless limited by law. This is where the key difference from the state socialist firm emerges: in the state socialist system of production, there was no dominance of law and no consistency in labour law enforcement. Hendley (1996) finds that law failed to restrain management. On the one hand, this was a consequence of the fact that ‘demand for rule of law’ was low as workers were atomised and unions were not autonomous. When I say that workers were atomised, I refer to the fact that the system opposed self-organisation of labour. Thus, official organisations of workers –trade unions – did not have to organise workers or promote their specific interests – rather, they were the part of the management structures. A famous metaphor that is often used is trade unions being the ‘transmission belts’ between the Party and the workers. On the other hand, also the ‘supply of rule of law’ was insufficiently provided by the state. The courts had neither independence nor political neutrality as tenures and promotions of judges depended on their relationship with the Party and the nomenklatura. Finally, the Party elite did not want to be constrained by law as since Lenin it perceived itself as the ‘vanguard party’ that stood above the uneducated masses that had a false consciousness. Thus, law never became autonomous in state socialist societies: ‘law was viewed not as an interactive process that took account of societal interests but as a one-way projection of authority that reflected only the interests of those in power’ (Hendley 1996: 18). Law thus was unable to restrain the power of company managers. This is why I can refer to this system as an ‘authoritarian paternalist’ enterprise.

Furthermore, the authoritarian position of the company director was also strengthened over the conflicts about resource allocation and benefit distribution that did exist in the state socialist firms even if they did not take place along the class lines that would be the case in a stylised capitalist firm. The foundation for the paternalist protector function of management was ‘bureaucratic-paternalist system of conflict resolution’ (Clarke 1993: 27). Workers expected their shop chief and their line manager to act on their behalf when negotiating with a company administration. Thus, there was an implicit social contract

between the workers and a foreman or a shop chief. On the one hand, 'a good chief defended his or her shop, secured supplies, did not seek to drive the workers above the demands of the plan in order to advance him or herself, and was fair in the distribution of penalties and rewards' (Clarke 1993: 19). On the other hand, workers abandoned all ideas of self-organisation. State socialist unions strongly depended on the Communist Party. As already mentioned, the functions of trade unions were different from those of unions in a capitalist production system. Their functions were not in the field of employee representation but in disciplining the workforce, raising productivity and managing of enterprise welfare provisions (Lavigne 1995: 7). How closely the authoritative side of enterprise directors was linked to employee welfare provisions is demonstrated by Soulsby and Clark:

[e]nterprise directors tended to manage their enterprises autocratically, and to do things which disrupted the precarious stability of the enterprise as little as possible. However, many of these same autocrats used strategies in non-production spheres to improve their own legitimacy, for example, by expanding social and welfare activities (Soulsby and Clark 1996: 232).

These welfare, housing, recreation and other non-work assets represented an important share of state socialist company assets and this 'income-in-kind' was an important amount in relation to workers' monetary wages (Clark and Soulsby 1998).

Certain paternalist features of state socialist enterprise and certain non-economic organising logics have practically disappeared with the regime change. Thus, welfare benefits provided through the company have largely disappeared. The material dependence was thus reduced: the functions of providing child care, housing, leisure and health care facilities are no longer provided by enterprises. Yet certain 'paternalistic' protection organising logics such as provision of credit and holiday vouchers are still in place and are valued by the labour force. In fact, the protective function of the enterprise evolved with the socio-economic situation. In the post-1989 period with its high level of unemployment and social insecurity, having a job with a MNC in itself represents a certain guarantee of job and income stability. While paternalism in benefit provisions has been considerably restricted, paternalism in work provisions has also been restricted but managed to evolve taking new forms.

In addition, authoritarian paternalism in company governance has largely been preserved. Management and labour are considered to have an overlapping understanding of what a

company is and what its development path should be. Thus, institutions of managerial authority are not really contested – overall rather cooperative and harmonious employment relations are the norm. What has changed is the ‘institutional furniture’: during state socialism, the common norm was political regulation of the modernisation process that manifested itself in managerial prerogative only challenged by the Communist Party (Ashwin 2003). Now, the institutional framework is very different, it is characterised by market regulation. Rather than a pluralistic understanding of modernisation process in which organised interests play a pivotal role, it is a common understanding between capital and labour representatives about enterprise being an ‘authoritarian paternalist’ that survived.

The second non-economic enterprise organising logic was the valuation of enterprise as a social organism and as a source of competitive industrial capabilities rather than a profit maximiser. As elaborated below, the enterprise organising logic of competitive industrial capabilities also refers, beyond valuation of industrialisation and production process, to the labour force and its collective identity as well as to the valuation of industrial production in the context of local community development.

The concept of industrial capabilities refers to industrial strength of an economy: as mentioned in the Introductory Chapter, state socialist regimes had a strong belief in industrialization; industrial strength was considered to be an asset and was highly valued. Economic growth especially in industry was a central pillar of the communist political regime by which its success was officially supposed to be judged. Industrial capabilities were a crucial dimension of economic development: they were key to regional and local development. Several features are associated with enterprise being an industrial organism, a source of industrial capabilities. First, large production sites with high headcount were common in industry. Industrial sector was organised in large state-owned enterprises while small and medium-size firms were rare. Thus, in Hungarian industry in 1975, the three largest producers supplied two thirds of products in 508 out of 637 product aggregates (Kornai 1986: 1698). Second, as we already know, managers in state socialist firms faced an incentive system that was oriented not to increasing efficiency and profits but to plan fulfillment and political loyalty. In Czechoslovakia, ‘the emphasis on production activities associated with ‘meeting the plan’ moved management focus away from issues of cost and quality management’ (Soulsby and Clark 1996: 233). Even for Hungary that, as we saw, had a somewhat more reformed production system, it was noted in relation to firm

performance: 'financial discipline is lax, and there is no strong market coercion to enforce the search for profits' (Kornai 1986: 1698). As already mentioned, this phenomenon was described by Kornai as a 'soft budget constraint': loss-making firms were given subsidies and their managers were not replaced. The non-economic rationale of the state socialist incentive system meant that the company was often maximising its production costs. This was due to the fact that it was not interested in maximising the produced surplus but rather in hiding its potential and minimising the surplus:

since neither the worker, not the enterprise, not the association, nor even the ministry, had any rights to the surplus produced they could only reliably expand the resources at their disposal by inflating their production costs [...] (Clarke 1993: 26).

Productivity potential thus was not taken seriously as the planning took the form of 'planning from the achieved level' (Clarke 1993: 27). This means that all future production targets were raised on the basis of past achievements. While efficiency and productivity were not central to managerial thinking, managerial incentives were set to promote growth and size of a company. As, the bigger was a company, the bigger was the social benefit package attributed to the enterprise and the bigger was its standing. Thus, company standing expressed in its size was a key preoccupation of state-socialist managers.

Apart from the preoccupation with size and headcount, the production process itself was one of the most time consuming prerogatives of the state socialist managers. The informal hierarchy of departments of a state socialist enterprise helps to understand the internal 'productionist' priorities. The personnel department that controlled the ideological and moral aptitudes of workers is often considered as the most powerful department (Mezei Interview September 2008). Yet after that, the department of production was the most important one, imposing its logic on finance, personnel and supply services. These other departments, on the other hand, had little authority. This implicit hierarchy was expressed by the fact that their employees were predominantly female (Clarke 1996: 17).

A further feature of enterprise as a source of industrial capabilities was the managerial priority of preservation and development of long-term industrial and technological capabilities. Yet the focus of industrial development was different. Despite the 'fetishisation of technology' (Kabalina and Clarke 2001: 1) - progress was measured by the number of inventions and innovations - innovation in the command economy took only limited, very specific form. Industrial organisation, especially during the early stages of

state socialism, was based on accumulation of inputs rather than on technological and organisational innovation - this extensive growth strategy of very fast industrialisation fared rather well until 1960s. However, when the technology gap became apparent hereafter, in order to catch up with the West the central planners chose the option of creating few high-technology sectors (Campos and Coricelli 2002). Consumer goods sectors remained underdeveloped and product innovation was low. In addition, industrial base was overdeveloped in relation to the service sector. At the beginning of transition in 1989, the industrial sector made up around 47% and 42% of the GDP in the CEECs and CIS, respectively (Campos and Coricelli 2002: 811).

Thus 'productionst approach' refers to the high valuation attributed to the industrial capabilities and to the production process itself, in contrast to financial outcomes related to profit maximisation. However, the state socialist enterprise organising logic was that of competitive industrial capabilities as even without the law of value competitive pressures existed. The economic organising logic of the law of value was largely absent as producers did not have to compete for consumers. However it would be wrong to assume that no competition pressures existed in state socialist system. While the competition for consumers was low, competition for production resources and production-related benefits was high. The level of competition for resources among companies as well as within companies was strong and pervasive at every level of the production process:

Individual workers and brigades competed for resources within the shop, while uniting behind the shop chief in the competition for resources within the enterprise. Enterprises competed for resources from the ministry, while uniting in the competition for resources within other ministries (Clarke 1993: 27).

As it was the function of the state bureaucracy to generate contracts and to enforce them, bureaucratic pressures were in a certain way a replacement for competition pressures. This allows us to the state socialist non-economic enterprise organising logic of competitive industrial capabilities.

The enterprise organising logic of competitive industrial capabilities presupposes not just a high valuation of industrialization and production but also refers to the common identity of the labour force that contributes to the production process. During state socialism, close to the idea of enterprise being a source of industrial capabilities was a strong perception of enterprise being a social organism. It was associated with the term 'labour collective' that

represented the attitudes of collective belonging among the labour force. It has been argued that the valuation of a labour collective did not emerge naturally but was used to manipulate labour into obedience and hard work by invoking collective values. According to some authors, the concept of 'labour collective' can be considered as a tool of dominance for the ruling strata of Party administration. Clarke argues that the manipulation of the concept 'labour collective' contributed to the alienation of workers from the labour process. He insists that:

the fetishised form in which the social character of human labour confronted every individual worker in the form of the labour collective, as an alien object to which his or her own labour activity is subordinated, was in a sense the state socialist equivalent of the capitalist alienation of labour in the fetishised form of the commodity (Clarke 1993: 26).

In other words, as commodification of labour alienates the workers in the capitalist societies, the pseudo-socialisation of labour through the idea of 'labour collective' had a similar alienation effect on workers in state socialist societies. Although recognising the ambiguous nature of this concept, Clarke still acknowledges its deep entrenchment into the collective psyche of state socialist stakeholders:

[t]he idea of the enterprise as a labour collective is an ideological fiction which masks the fact that the one thing that the enterprise cannot tolerate is the collective organization of its workers. Nevertheless it is a powerful fiction: it is in the name of the labour collective that the administration rules the enterprise, and presses its interests against higher authorities, and it is in the name of the labour collective that individual workers are subjected to managerial authority (Clarke 1993: 26).

Yet regardless of the degree of instrumentalisation of the concept one cannot deny its mobilising power. The concept of 'labour collective' was deeply embedded into the sense-making of workers and managers of state socialist enterprises.

Some authors wonder if the phenomenon of 'labour collective' had had its roots in the cultural specificity of the Central and Eastern Europe or in the specificity of the state socialist production system. There is extensive evidence of the existence of 'labour collectives' in Russian enterprises (Ashwin 1998; Vlachoutsicos 2001; Ashwin and Clarke 2003); in some cases it is interpreted as a specifically Russian cultural legacy. Thus, Vlachoutsicos (2001) sees in collectivist value system at work as a continuation of decision making process common in medieval Russian villages. This study, on the other hand, interprets 'labour collective' as a legacy of the state socialist production regimes. Countries

of Central and Eastern Europe have been historically and culturally different from Russia but they experienced the state socialist system of production and thus also developed a valuation of industrial capabilities and of the labour force contributing to the production process. Clark and Sousby discuss a similar phenomenon to that of a 'labour collective' by describing a close relationship between enterprise and community life in former Czechoslovakia as 'organisation-community embeddedness'. This close 'relationship' is exemplified by names of enterprises carrying the local town or village names as well as retired enterprise employees continuing to live in the flats provided and owned by the enterprise (Clark and Soulsby 1998). Thus, beyond valuation of industrialisation and production process, the enterprise organising logic of competitive industrial capabilities refers to the labour force and its collective identity as well as to the valuation of industrial production as a key for local community development.

The collective enterprise identity was not the only key concept in state socialist companies. Socialist institutions promoted individualist as well as collective identity. This is why Ashwin described the 'labour collective' as symbolic collectivism. Collectivism was partially symbolic as it was evoked when needed to unite the workers but, when necessary, social organisation of production was dominated by more individualistic perceptions and actions. Segmentation of the labour force within the enterprise is a crucial example of such symbolic collectivism. Labour segmentation has been a widespread phenomenon within state socialist labour collectives. The differentiation between core and peripheral workers of an enterprise was common. The internal hierarchy was sustained not through wage differentials that were limited but through discretionary allocation of work and enterprise welfare benefits as well through assignment of professional and skill categories. Further privileges that were enjoyed by the core workers were related to the allocation of privileged jobs, promotion to political posts, work-related awards, and Party membership. The core labour force was characterised by longer tenure, evidence of voluntary social activity on behalf of the labour collective and a greater degree of commitment to meet production targets (Schwartz 2004). The issue of commitment was crucial as the production system was characterised by production breakdowns and supply shortages so that fulfilling of quantitatively defined plan targets at the end of the month was associated with additional shifts and overtime known as 'storming'. Peripheral workers also participated in 'storming' but as a reserve labour force they were mainly involved in auxiliary jobs in and around an enterprise. Finally, it has been argued that labour segmentation was also a disciplining

mechanism: the presence of peripheral workers ‘was consciously used by the enterprise management as a means of social control over the other workers’ (Schwartz 2004: 277).

Yet labour force segmentation was not the only feature that challenged the collectivist enterprise identity of ‘labour collective’. Thus, Kharkhordin (1999) finds a high degree of individualism in Russian society. Individualism in the enterprise context meant that despite certain limitations, individual selection and pursuit of desired professional career was possible and labour collectives were not for eternity defined entities. Similarly, (Schwartz 2004: 274) reports: ‘while wage systems and structure, pay scales, skill differentials and premiums were stipulated in the all-Soviet wage and occupations handbooks drafted by the planning organs and ministries in Moscow, and were substantially uniform across industries, the external labour market had the features of a relatively competitive market, as workers were basically free to train for a profession of their choice and choose their employers’. Furthermore, despite the egalitarian provisions for most plan production activities, firm recruitment strategies were at least partially competitive. Although internal company hierarchies were the key principle of the social organisation of production, a competition dimension among employees was not completely absent. The examples of poaching of best workers are cited in the literature, even if poaching incentives were not based on wage differentials but on social benefits. Yet despite all the enumerated caveats ‘labour collective’ was an established non-economic enterprise organising logic during the state socialism.

To sum up, state socialist enterprise was valued as a source of competitive industrial capabilities. This meant a certain collective identity of the enterprise labour force based on production capabilities as well as a valuation of enterprise industrial capabilities beyond company limits: as a motor of regional and local development.

The third non-economic enterprise organising logic that existed during state socialism was enterprise functioning as a discretionary bureaucracy. A bureaucracy is an organisational structure that contains a hierarchy of authority, is dominated by explicit rules and regulations and is characterised by rationalisation and specialisation (Weber 2001). As the two other state socialist enterprise organising logics, this enterprise logic was by definition non-economic as it had an organising logic different from the law of value and price mechanism regulating supply and demand. The functioning of the state socialist enterprise was not based on the market logic or price mechanism but on the guidance of the Party-

state and nomenklatura. Thus, the state socialist production system was a large bureaucracy dominated by the Party state.

To a certain extent, this organising logic was similar to what has been described for firms in market economies. The theory of the firm in institutional economics (Williamson 1975) pointed out that non-market procedures and rules - and hierarchy of managerial authority - regulate the social exchange within the company. Similarly Chandler, describing the rise of modern professional bureaucracy in American economy, argued:

In many sectors of the economy the visible hand of management replaced what Adam Smith referred to as the invisible hand of market forces. The market remained the generator of demand for goods and services, but modern business enterprise took over the functions of coordinating flows of goods through existing processes of production and distribution, and of allocating funds and personnel for future production and distribution (Chandler 1977: 1).

As elaborated in Chapter II, this theory has been developed further and replaced by more complex understandings of the firm that include a societal (Maurice, Sellier et al. 1986) and a power dimensions and see the firm as a site of contestation (Amoore 2000) rather than pure coordination of resources. However, while these more complex views of the nature of the firm reject the simplistic distinction between markets and hierarchies, even these theories do not question the hierarchy of authority as one of the main organising principles of the firm (Hamilton and Feenstra 1995). Thus, Chandler's proposition that 'the existence of a managerial hierarchy is a defining characteristic of the modern business enterprise' (Chandler 1977: 7) has never been completely challenged. Marsden argues that:

limits must be set on management authority if employment relationship is to have any appeal to workers: no one would sign up to unlimited obligations (Marsden 1999: 31).

However, he shows that the extent of managerial authority to control the work process can differ. On the continuum between a strong managerial authority, on the one hand, and a full worker autonomy, on the other, work organisation 'seeks to group tasks by complementarities in workers skills' (Marsden 1999: 33) and in this way sets the limits to managerial authority. The type of work organisation and transaction rules that are often found in Germany are described as those that limit managerial authority the most. In state socialist production system the whole production system represented one big bureaucratic structure in which official authority lay with the Communist Party. The state socialist

enterprise bureaucracy was closely linked to the political imperatives defined by the Party nomenklatura. Weber predicted that a socialist system of production would be a highly developed bureaucracy as state control was expected to make the 'political' disappear through its merger with 'economic' (Giddens 1972). Weber's expectation that such organising logic would lead to an expansion of bureaucratisation came true.

However, the logic of managerial authority in state socialist production system somewhat contrasted with the above presented views on the enterprise bureaucracy. A major difference of state socialist production bureaucracy from a firm in a market economy was the fact that the hierarchy of authority was less pronounced due to the constant need to 'muddle through' and to improvise. Not all decisions and activities were carried out exactly according to prescribed rules and regulations and not all work activities were regulated by hierarchical authority and were specialised. A high level of discretion based on individual autonomy was present. Thus state socialist organisation of production had a high share of discretion as it was characterised by a neglect of formal rules and regulations and by a high informality of the production process and arbitrariness of the central planner commands. In other words, using Mintzberg's (1979) typology of four organisational types that distinguishes between cases according to the type of adjustment (standardisation and mutual adjustment), on the one hand, and the units controlled (inputs vs. outputs), on the other, state socialist system of production can be approximated to an operating adhocracy. Rather than being a machine bureaucracy or a professional bureaucracy where standardisation of either work roles or skills is advanced and is under a strict hierarchical managerial control, state socialist firm tried to control the final outcomes rather than work roles – the quantity of output, but in a rather ad-hoc fashion. In a similar vein, state socialist enterprise was described as a 'fake bureaucracy' (Sztompka 1993a) as formal rules and regulations were regularly ignored and the whole net of informal rules and conventions existed.

Formally, an enterprise director had absolute authority. However, although formal hierarchical organisational structures existed, the main managerial decisions were still made informally. The whole production process was based on negotiation between companies' directors and plan administration. Chronic shortages and disruption of supply also made company management open for informal solutions and deals. Given that the irregularity of supply was the main factor undermining the plan achievement it is not surprising to find that rather than managing work organization, the main preoccupation of

enterprise management had been assuring the supply or negotiating new production goal with the state administration (Clarke 1993). In this domain, it was difficult to have strict rules and thus informality was a natural outcome of this 'muddling through' process.

The arbitrariness and unpredictability of the central planner was high in fields of intervention: taxation, investment decisions, price setting etc. This led to a managerial insecurity around the decision-making process: 'Because of the ceaseless and unpredictable changes of the financial rules, taxes, and subsidies, firms feel insecure and exposed to the arbitrary improvisations of the bureaucracy' (Kornai 1986: 1698). This arbitrariness and unpredictability also took a part of responsibility for a company away from its managers: because of a large number of interventions by the central planner, managers could argue with good reason that the decisions were made in consultation with the bureaucracy and if there were problems, the causes lay outside his or her responsibility.

The informality and arbitrariness of centrally planned production system had a direct consequence for the work organisation. The achievement of production quotas was mostly delegated to the shop floor that thus enjoyed a high degree of autonomy. Ordinary workers had a high degree of control over the work process (Clarke 2004: 407). In production, due to permanent shortages and bad links to other enterprises, a 'do-it-yourself' approach was often preferred (Van Zon 1996). In other words, the concepts of management or managing the production have been practically unfamiliar. Some observers perceive the high level of individual control over the production process and individual work tasks as a contradiction as, at the same time, workers were atomised and for the most part unable to organise themselves collectively. So, how could they acquire this power and work control? Clark explains that 'workers have a high level of control over production not because they have won a battle to seize control from the management, but because they have been given a high degree of responsibility for ensuring that they achieve the tasks assigned to them' (Clarke 1993: 18). Thus, high autonomy was associated with high level of discretion. The high degree of self-determination and control were there but in an informal, not self-reflective way.

Another example of circumventing the formal regulations was the reward system. The piece-rate system that had been the predominant reward and incentive scheme up to the late 1970s was based on a contradiction as it measured individual effort and was thus unable to take the breakdowns and irregularities of supply into account. This inherent contradiction

that was at the core of the piece-rate system and the formal adherence of enterprise administration to it must have made it ridiculous in the eyes of workers. The rule of piece-rate was circumvented in two ways. First, piece-rate was practically ignored: the shop floor leader ensured that workers ended up with a regular wage more or less regardless of performance. So, there was practically no connection between work effort and reward for it. Second, at the same time, when the piece-rate payment mechanism was used, it was a highly discretionary system through which individual workers could be penalized (Clarke 1993: 20).

Apart from the salaries, non-monetary benefits and rewards were also distributed in a highly discretionary manner. This was enabled by a complex informal stratification of the state socialist enterprise. The implicit divide discussed earlier in this Chapter went between the core and auxiliary workers. The selection for core workers was based not only on their technical and professional knowledge and skills but also on their moral and behavioral attitudes. These core workers had to carry more responsibility in the production process: they were the ones to work overtime during the 'storming' sessions at the end of the month (Clarke 1993: 22). Thus, informally, labour collective did not represent a unified, equally treated group of people. Among employees there was an acceptance of a high informal segmentation of the enterprise labour force. In this context, the distribution of social benefits, although formally rule-bound, was a highly discretionary process.

Control over these benefits was the most powerful tool at management's disposal, and the management used it to a full effect. The granting of withholding of benefits could be used to lure, reward, or retain key categories of skilled workers, as well as to punish the shiftless (Ashwin 2003: 100).

Discretion was often related to personalised relations: people in control of resources would use their position to fulfill obligations towards family members or to ensure favours for the future. The system of personalised favours was characteristic for the state socialist production system, even if this phenomenon known as 'blat' was most predominant in the sphere of consumer goods and in supplier relations (Ledeneva 1998). The discretionary side of administration was also visible due to the high level of competition for resources at every level of the production process.

The high level of informality was not the consequence of a lack of formal rules; on the contrary, it was the consequence of a large amount of formal regulation. In the social

organization of production, the sphere of law was neither neutral nor autonomous but instrumental to the purposes of the Communist Party. The consequence of Party dominance for the field of employment relations was that no voluntary agreements and regulations were possible and the state dominated the field. The consequence of that, in turn, was an over-prescriptive legal framework. Formal regulation being over-prescriptive was another reason for informality of employment relation. Such things as pay norms, tariff scales, length of the working day and week, meal breaks, days off etc were stipulated in the respective national Labour Codes. The consequence of that was that 'the gulf between the regime's prescriptions and everyday reality was filled by informal practices which became the dominant means of regulation the employment relationship' (Ashwin 2003: 99).

This is why the socialist work organisation with its high level of informality and low level of rule-bound activity is described by the concept of 'fake modernity' (Sztompka 1993a). Grancelli understands the concept as a combination of three components: 'imposed modernity in some domains of social life', 'vestiges of traditional, pre-modern societies in many others, and 'symbolic ornamentations pretending to imitate Western modernity' (Grancelli 1995a: 2). An example that he cites to illustrate the concept of fake modernity is that of underground economy:

the underground development of a market economy was not due only to the rigidities of the command economy: it was the result of changes in the behaviour of bureaucratic cadres within an institutional context characterised by overlapping [...] traditional and modern traits (Grancelli 1995a: 7).

While the concept of 'fake modernisation' may be somewhat overstating the point, it brings to the fore the discretionary, not rule-bound nature of regulation of state socialist firm based on personified and clientilistic relations and certain circumventing of the formal hierarchy of authority. This is why one can describe such type of firm bureaucracy as a discretionary bureaucracy. As rules to guide the decisions were circumvented, organisational decision making process had a high degree of flexibility as it needed to adjust to circumstances. As objectivised and rule-bound decision making was rare, what prevailed was a high level of uncertainty related to the production process. Such a system could only survive due to certain sets of skills. The distribution of productive resources depended on the negotiating skills and personal contacts of shop chiefs, line managers and higher managers but also on coordination and strong technical skills of ordinary workers.

In the context of the Japanese factory Toyota, Koike describes certain types of skills as ‘intellectual skills’ that are necessary to deal with uncertainty on the shop floor. ‘Workers’ intellectual skills comprise the know-how for dealing with uncertainty on the shop-floor. Uncertainty on the shop floor consists of problems and changes in operations’ (Koike 2002: 392). Yet while for Koike intellectual skills refer first and foremost to resolving problems related to defects in product quality, product quality was not a priority during state socialism. For Koike, intellectual skills also refer to dealing with ‘quantitative change in output, a change in production methods, a change in products and a change in labour mix’ (Koike 2002: 395). In this description, several features of a Toyotist ‘intellectual skill’ structure can be applied to the skills in the state socialist production system where production output and labour mix were highly unstable and high level of uncertainty regarding these factors existed. Intellectual skills were relevant for managerial staff and workers, especially core blue-collar workers. For blue-collar workers, in addition to intellectual skills, the level of technical expertise was also quite high. In Hungary, before the regime change, 60% of blue-collar workers were skilled with a technical certificate from a vocational school and 20% were semi-skilled i.e. had uncertified skills but were trained for a given stage of production. Thus, only 20% of the blue-collar workforce was unskilled (Czandor Interview December 2008). It is this combination of intellectual, negotiation and social skills of managers and intellectual and technical skills of blue-collar workers that state socialist production system could function despite its high level of uncertainty and discretion.

To sum up, discretionary bureaucracy was yet another non-economic enterprise organising logic of state socialist firms. It was based on a high level of autonomy and discretion was linked to intellectual, negotiating and social skills of managerial staff and intellectual and technical skills of the shop floor staff.

Conclusion

The aim of the Chapter was to embed the study of post-communist enterprise organising logics in a specific historical socio-economic context of state socialism. The Chapter introduced three state socialist non-economic enterprise organising logics. They describe state socialist enterprise as authoritarian paternalists, as sources of industrial capabilities and as discretionary bureaucracies. Table 2 summarises the non-economic enterprise logics of the state socialist era.

Table 2: Non-economic enterprise organising logics during state socialism

Enterprise dimension	Non-economic enterprise organising logics	Main features
Firm governance and welfare provisions	Authoritarian paternalist	Strong managerial authority with strong paternalist welfare provisions)
Firm performance	Source of competitive industrial capabilities, productionist approach	Valuation of industrial capabilities and industrial strength as a source of extensive growth, preoccupation with size and headcount, competitive pressures despite the absence of the law of value. Perception of the enterprise as a social organism.
Work organisation and skills	Discretionary bureaucracy	Formally, the organising logic of large bureaucracy led by the Party state dominated, but in reality the hierarchy of authority was low due to high level of discretion and informal decision making.

The Chapter discussed the three non-economic enterprise organising logics as a historical phenomenon embedded into the state socialist production system. All three enterprise organising logics were clearly non-economic as they constrained the power of the price mechanism and the law of value by emphasising other, alternative organising logics. The organising logic of an authoritarian paternalist combined a strong director's authority with managerial responsibility to protect workers' welfare. The enterprise organising logic of competitive industrial capabilities combined the valuation of industrial capabilities and collective identity of the labour force beyond company limits with competitive pressures for resource allocation. Finally, the Chapter discussed the enterprise organising logic of a discretionary bureaucracy according to which there were some formal rules of the production process related to the Party authority but they were counterbalanced by a high level of discretion and informal decision making. Thus, each of the three studied enterprise organising logics were different from the economic organising logic of the law of value and cost-efficiency.

Conclusion for Part 1

The aim of Part 1 was to introduce the main conceptual frameworks that underpin this study as well as to embed the study in the historical context of post-communist Central Europe. Chapter I elaborated on a number of concepts and theories derived from the experiences of post-war West European political economies. The role of organised interests of capital and labour has been identified as crucial for dealing with class divide. Yet when contrasting these concepts with studies of post-communist transformation I had to conclude that neither macro-level, nor micro-level evidence allowed me to identify organised interests of capital and labour as forces of societal re-embedding of economic liberalism. Thus, using West European ‘institutional template’ did not prove to be useful for understanding the dynamics of political economy of industrial modernisation in Central Europe. Institutional theories of the firm and especially their constructivist strand presented in Chapter II offered more useful approaches for understanding the post-communist political economy as they conceptualised the firm as a site of contestation and conflict. However, most decisively, introducing the writings of moral philosophy that distinguished between utilitarian and deontological ethical motives and translating this debate into Weber’s concepts of value and instrumental rationality allowed me to identify this alternative way in which the Polanyian societal re-embedding can be conceptualised. I theorised that societal embedding in post-communism has taken place when the idealised and ideal-typical picture of economic liberalism held by post-communist stakeholders is being limited, constrained and moderated. This adjustment has taken place under the pressure of non-economic organising logics based on deontological values of local stakeholders. Chapter III discussed the three non-economic enterprise organising logics as a historical phenomenon embedded into the state socialist production system.

Part 2: Enterprise organising logics in post-communism

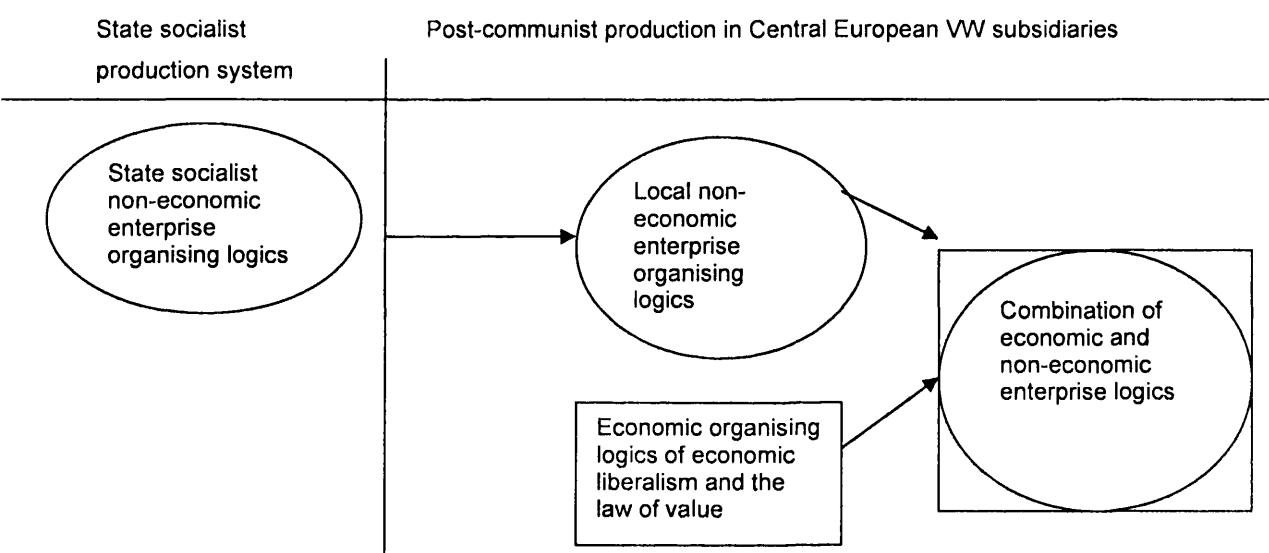
During the systemic change of post-communist transition, Central European social organisation of production has witnessed a radical break from the previous system dominated by non-economic organising logics. Despite this radical and profound institutional change, Central European production systems were able to rapidly rebound and modernise themselves during a short period of 20 years. This unprecedented industrial modernisation has been a puzzle not only due to its speed and scope but also due to the fact that supporting institutional foundations such as 'true' collective actors, as identified by the comparative capitalism literature in Chapter II, have been largely missing. In post-communist production systems, one does not find the institutional 'classical suspects', the forces of societal re-embedding that drove Western European post-war modernisation: state and unions have been weak, local capital divided. The type of modernization that emerged has been described as foreign-led modernisation (Drahokoupil 2008). MNCs have been identified as potential key drivers of this type of industrial modernisation. Yet important inflows of foreign direct investment do not necessarily always lead to regional industrial modernisation and upgrading, as examples of countries such as Mexico and Brazil demonstrate. In these countries, foreign direct investment (FDI) remains an enclave phenomenon.

To recapitulate, Chapter II linked the political economy literature to the institutional and normative frameworks. As discussed in Chapter II, enterprise organising logics are defined as different types of rationality (value or instrumental), principles of valuation, logics (of appropriateness or of consequence) and different orders of worth that structure social reality (Albert 1993; March and Olsen 2004; Boltanski and Thévenot 2006). Chapter III described a number of non-economic enterprise organising logics that existed during late state socialism. It described three non-economic enterprise organising logics that dominated state socialist system of production and work in which enterprises functioned as authoritarian paternalists, sources of competitive industrial capabilities and as discretionary bureaucracies.

The main goal of Part 2 is to empirically follow up the dynamics of expanding economic liberalism, on the one hand, and to trace the re-emergence of non-economic organising logics, on the other. For the company level analysis of post-communist production regimes,

the role of local actors and theirs value rationalities need to be carefully studied. Polanyi's societal embeddedness can be linked to the normative dimension, namely by distinguishing between different types of ethical motives in stakeholder behaviour or, to use Weber's terminology, different rationalities. Normative frameworks are crucial for the period of post-communist transformation because of a fast institutional change in production systems and labour markets. During periods characterised by dramatic institutional change, actors adopt several roles: they are rule-takers but they are also rule-makers. Normative continuities represent the necessary stability in such circumstances. This is why understanding the embedded value rationality during such periods is critical.

Chart 1: The evolution of enterprise organising logics in post-communism



This study argues that although after 1989 the institutions of labour unions, of managerial authority as well as of work organisation in Central Europe have been 'under construction', certain continuity from the state socialist period to the post-communist era has been preserved. The role of Part 2 is to show that even after the emergence of economic liberalism and thus of the law of value associated with it, non-economic enterprise organising logics have re-emerged to become a constitutive part of collective identity of Central European workers and managers. In other words, the main empirical argument developed in Part 2 is that while some non-economic enterprise organising logics have disappeared, others have survived. Thus, in the post-communist industrial system, the economic and non-economic organising logics co-exist (see Chart 1).

Informed by the writings of moral philosophy and Weber's rationality concepts, as well as by the writings of March and Olson as well as Boltanski and Thévenot, the normative

dimension of enterprise organising logics discussed in this study implies that, rather than being exclusively founded on the law of value and instrumental or utilitarian rationality related to cost-efficiency, the defining logic of resource allocation within the production system is also founded on principles of social regulation and moral commitment, such as paternalism, authority, collectivism, and individual autonomy. The normative dimension inherent in the non-economic enterprise logics restrains the organising logic of scarcity, efficiency and price mechanism in the regulation of production and work.

This finding is surprising as institutionally there has been a radical break with the previous system. At least in three fields of enterprise activity the new economic organising logics emerged: in firm governance and welfare provisions, in firm performance and in work and skill organisation. First, as managers were considered to be the agents of short-term cost-efficiency and of the law of value, the expansion of managerial authority represented the economic logic in the field of firm governance. Second, in the evaluation of firm performance, the role of financial results increased in comparison to the state socialist production model in which the law of value was subordinated to political orders of the Communist Party. Finally, more de-contextualised managerial and standardised work organisation practices were used as tools to increase cost-efficiency and financial results.

Despite the dramatic institutional shift and the expansion of the law of value, I observe a re-configuration and re-emergence of certain non-economic organising logics. With the regime change, the dominance of the Communist Party over the definition of enterprise organising logics disappeared. Yet certain non-economic organising logics have been preserved, although in a new institutional form, and continue to regulate production, employment and work. They take the form of (i) paternalism and welfare protection, (ii) a 'productionist approach' in evaluating firm performance that considers the firm as a source of industrial capabilities, and (iii) a valuation of skill autonomy and discretion in work organisation and managerial practices. The coming together of a more pronounced economic logic of the law of value, on the one hand, and of the three non-economic organising logics, on the other, has created new enterprise logics that combine the economic and the non-economic rationales. The enterprises in my case study function as authoritarian paternalists, as sources of competitive industrial capabilities and as discretionary bureaucracies. The first organising logic views the enterprise as a source of director's authority but also acknowledges management responsibility for the employee's welfare protection. The second is based on the perception of the enterprise being a social

organism and as a source of valuable industrial capabilities, despite the increased financialisation of firm performance. Finally, the third relates to the enterprise being a discretionary bureaucracy in which rules and regulations dominate production and work but are counter-balanced by individual discretion and autonomy based on local knowledge and technical skills.

Part 2 thus argues that despite a profound institutional change, certain continuities from the state socialism production regime have survived. Rather than by principles of scarcity, price competition and the law of value, the state socialist production was characterised by non-economic rationales. During the systemic change, although institutions of labour unions, of managerial authority and company ownership, but also of work organisation, experienced a profound change, certain non-economic enterprise organising logics have been preserved, although in a re-configured form. In other words, while the institutions of production, work organisations and employment relations have known a dramatic change over the last 20 years, certain value rationalities and non-economic enterprise organising logics have survived the transition process. The link between the non-economic enterprise organising logics of the state socialist era and non-economic enterprise logics of the post-communist period is not necessarily linear. Continuity in value rationality does not presuppose a causal link from the former to the latter but it defines the options in the normative repertoire of stakeholders and makes certain choices more probable than others. The pre-dominant role of the non-economic enterprise organising logics during state socialism has definitely been one of the most important reasons behind the strong re-emerging of non-economic organising logics during the post-communist era.

Despite an institutional shift from a socialist to a capitalist production system and thus a dramatic change in most underlying institutions, this study observes a re-configuration and a partial preservation of non-economic organising logics in enterprise activities of the VW subsidiaries. As far as my engaging with neo-institutional theory is concerned, by considering enterprise institutions as well as the underlying organising logics in the discussion of institutional change, this study tries to overcome the limitations of the institutional theory that cannot deal well with a radical, systemic change that has taken place in post-communist countries. I argue that the dramatic institutional change in external environment of the firm as well as in internal features such as ownership structures, work organisation, managerial authority etc. meant an expansion of economic logics associated

with economic liberalism. However, it has partially been 'cushioned' by non-economic enterprise organising logics thus representing a form of Polanyian counter-movement.

The non-economic enterprise organising logics analysed in this study are not unique to VW subsidiaries in Central Europe, or to state socialist and post-communist settings. Certain features such as enterprise being a flexible bureaucracy are present in any firm. Also other features can be found in certain socio-economic settings. Thus, for example, the understanding of the firm as authoritarian paternalist has been discussed for the Japanese firm (Sako and Sato 1997; Dore 2000). Also, seeing the enterprise as a social organism, as a source of industrial capabilities and skills has been common in German as well as Japanese firms (Streeck 1991). Thus, non-economic enterprise organising logics discussed below are not unique to state socialist or post-communist production regimes. But although all three organising logics *per se* are not a unique post-communist phenomenon, certain dimensions are more pronounced than in other settings. Thus, using the example of Soviet enterprises Ashwin (1998) shows that the role of the enterprise in people's life under state socialism was bigger than it has been the case in the Western context and even bigger than it has been the case for large Japanese enterprises. Also, certain features of the state socialist system such as the pervasive role of the Communist Party and the missing neutrality and autonomy of the judicial system contributed to a specific form of informality and of a strong authoritarianism within the company. These issues are discussed in greater depth in Chapters V and VII.

Part 2 is organised as follows. Chapter IV elaborates on the rationale for choosing the automotive industry and the VW Group as a field of case study research. Chapters V, VI and VII use the empirical evidence collected during the field research in 2006-2008 in four subsidiaries of the VW Group in Poland, Hungary, the Czech Republic and Slovakia. The task of these three Chapters is theory verification: they show that certain legacies of the state social system of production have been preserved far beyond the regime change. These Chapters provide evidence that the three non-economic enterprise organising logics have been re-configured and partially preserved during the transition period.

IV. The rationale for case selection

This research project chose a case study method as its empirical method of investigation. As already discussed in the introductory Chapter, case study methodology is considered to be the most useful way of dealing with theory building when no causal relationship is at stake. It is based on theoretical sampling as the goal in case study research is not to generalise to a larger population but to derive theoretical generalisations that would refute, confirm or extend a theoretical proposition. Accordingly, the selection of the cases is based on criteria other than randomness. Criteria for selecting a case or cases are defined by the emerging theory: there can be exploratory cases, extreme or unique cases, or again, typical or representative cases. One approach to a case study that is not concerned with making causal claims can be in finding a critical or revelatory case that helps to redirect a researcher's attention to an entirely new field or to a new phenomenon that was previously under-researched or neglected (Yin 2003). Precisely this kind of a critical/ revelatory case study has been used in this empirical inquiry. The case study that is discussed in Part II sets out to provide the empirical evidence for the existence of local non-economic enterprise organising logics and to explore the post-communist transformation as a single phenomenon.

This Chapter elaborates on the different steps of the theoretical sampling of the case study. It is organised as follows. First, it elaborates on the reasons for choosing the automotive industry as the sector of field research. It then considers the reasons for choosing a foreign company as a case study over a domestically owned one. In Section II, the Chapter elaborates on the rationale for selecting the Volkswagen (VW) Group as the enterprise to undertake case study research.

First, the existence of local non-economic enterprise organising logics presupposes certain continuity from the state socialist period. Thus, it was important to choose an industry that had strong historic legacies in the respective countries. But the key rationale behind choosing the automotive industry is the following: an important industrial upgrading of the automotive industry has emerged as a regional phenomenon. The existence of common non-economic enterprise logics has supported this evolution despite national institutional differences. Second, the interest of the study was to identify non-economic enterprise organising logics in the context of expanding economic liberalism and the dominance of the

law of value. This phenomenon has not been uniform in the post-communist societies, with some parts of the society being shielded from economic liberalism for longer. A foreign MNC was selected as a critical case for a strong drive towards the law of value that is represented by strong competitive pressures along the international value chains.

Finally, the choice of the VW Group was based (i) on the argument that the Group was among the rare cases where such a case study could be conducted across the four countries in a consistent manner thus allowing to demonstrate non-economic organising logics as a common post-communist Central European phenomenon and (ii) on the argument that the company might be the most supportive of the re-emergence of local non-economic organising logics due to the experience of an unprecedented industrial upgrading that all four subsidiaries went through. The corporate culture of the VW Group that is usually described as a stakeholder model was assumed to be conducive to the re-emergence of local non-economic organising logics. Furthermore, the fact that the plant subsidiaries have been present in all four countries and have all experienced significant industrial modernisation led by the headquarters represented an evidence of commitment to the Central European production locations on the side of the German headquarters. By modernising the new Central European production locations and thus showing a long-term commitment that goes beyond the short-term oriented law of value the VW headquarters provided an environment in which local non-economic enterprise logics could re-emerge.

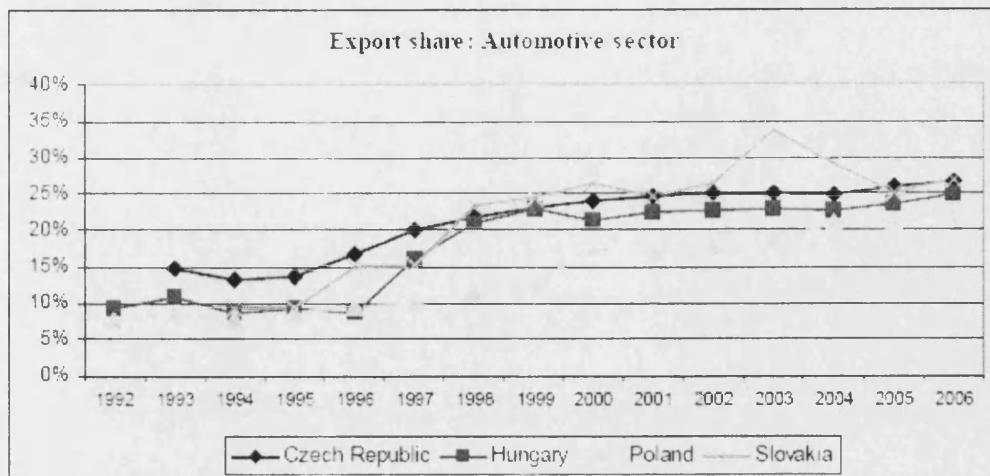
I. Selecting the automotive industry

There are two reasons that made automotive industry appropriate for studying enterprise organising logics in post-communism. First, an important factor behind its selection has been the fact that Central Europe has had a long tradition of automotive industry. The tradition of car-making in Central Europe goes back to the pre-World War I period. Later, during state socialism, despite the overstretched specialisation of the COMECON and higher priority of industrial policy given to heavy industry and armament rather than consumer goods such as cars, practically each country had its own car production (Rode interview April 2007). Even if the car technology was mostly imported from the West and only little genuine research and development took place, vocational training and engineering traditions were strong.

Automotive industry was organised in large vertically integrated state combines. Hungary had highly developed and independent supplier networks but with weak core firms (Van Tulder and Ruigrok 1998: 32). It used to export a large number of components to Russia for Lada cars. Poland, on the other hand, had a number of strong, highly vertically integrated final producers such as FSO, FSM and FSR, but not a strong supplier base. Czechoslovakia, similar to Hungary, was a country with strong industrial and crafts traditions in the region due to the fact that it was part of the Austro-Hungarian Empire. It also produced a successful Škoda brand and had supplier networks spreading across the whole territory. Furthermore, in the Slovak part of the country, there was a big military complex that experienced a huge 'shake-up' in the early 1990s. A part of the labour force could be re-employed in the expanding car manufacturing (Pala' interview March 2007).

The second reason for the selection of the automotive sector has been the fact that it was the sector in which the success of industrial modernisation during the last 20 years is undoubtedly. The modernisation of the automotive industry has not only been fast; it has also been profound (Radosevic and Rozeik 2005). Central Europe as a whole has become a regional hub for automotive production. This re-emergence of strong industrial capabilities in the region is an unexpected outcome that not many regional observers would have predicted 10-15 years ago. The share of automotive exports increased from 7-15% across the Visegrad four in the early 1990s to around 25% of all exports in 2006. A similar important increase is documented for the share of automotive industry in manufacturing production. There, the share has increased from just below 15% for the four Visegrad countries at the beginning of transition to above 25% in mid 2000s, as the Charts below demonstrate (Hancké and Kurekova 2008). The re-emergence of strong industrial capabilities in Central Europe has been identified as a regional phenomenon. It is the area of the south-west of Poland, the Czech Republic, the north-west of Hungary and the west of Slovakia that attracted a lot of FDI and experienced a fast industrial upgrading (UNCTAD 2006). In the early 2000s, some observers started to realise the strong regional dimension of modernisation calling the area 'Detroit East' (Businessweek 2005). The Chart below illustrates the 'Detroit East' region.

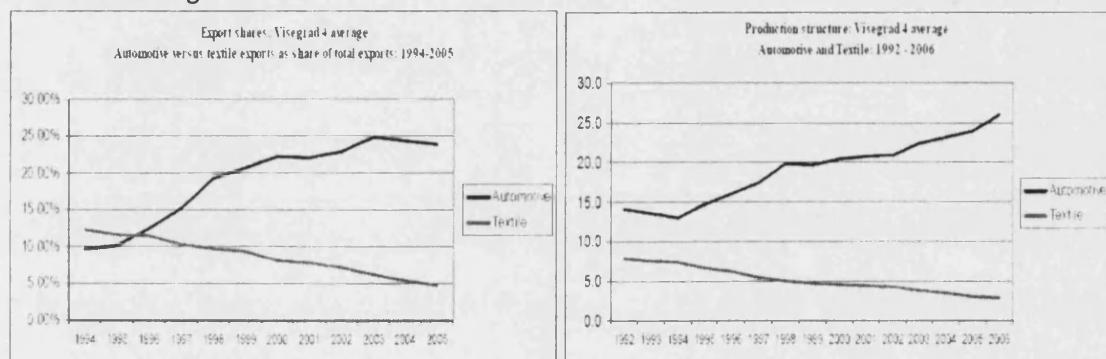
Chart 2: The role of automotive industry in Visegrad four



Source: UN COMTRADE

Source: Hancké and Kurekova (2008)

Chart 3: Export shares and production structures of Visegrad Four in manufacturing



Source: Hancké and Kurekova (2008)

The existence of the common local non-economic organising logics has undoubtedly contributed to the fast regional industrial upgrading. It is the regional trend of industrial modernisation that provides the commonality for the four cases considered: independently from privatisation strategies and investor profiles, in all four countries considered, the automotive industry has experienced an important revival during the last 15 years.

The traditions of the machine tool production in the region as well as the fast modernisation of the industry in all four countries have been the two main factors that determined the choice of automotive industry as the sector for empirical research. However, the upgrading argument remains somewhat controversial. Some authors disagree with the fact that the

recent industrial modernisation represents a new phenomenon of industrial modernisation seeing it at best as a re-emergence of the regional industrial capabilities⁶.

Chart 4: Locations of foreign automotive affiliates in the new EU member states



Source: UNCTAD (2006: 91)

The choice of a foreign owned company over a domestic one had a following rationale. The industrial automotive landscape in Central Europe, as in Western Europe and other industrialised countries, is dominated by production networks that are organised around transnational automotive manufacturers. Regional industrial modernisation went together with the dominant position of foreign capital in the ownership structures. In Central Europe today, one tenth of all FDI stocks to the big countries in the region are in the automotive industry (UNCTAD 2006), while for smaller countries such as Slovakia this share is even higher. In the four Visegrad countries automotive sector has been one of the top destinations of the multinational companies (MNCs) from the 'triad' - Western Europe, US and Asia (the Table below includes also other Central and East European countries for comparison).

⁶ Some authors (Van Tulder and Ruigrok 1998) tend to disagree with the upgrading thesis. First, the number of cars produced and sold in the region before 1989 was higher than during the 1990s. Despite important increases in production during the 1990s, Central European countries just managed to keep their share in the world production stable: while in 1990 the region produced 5.0% of cars, in 2002 this share was only 5.6%. Thus, the industrial development of region can be better described as a re-industrialization or a different industrialization. Second, while some companies were modernised by their new foreign owners, this has only been a small share of previously existing industrial capabilities, many big industrial names, in contrast to Škoda, were not preserved. Thus, if we consider the vehicle production industry, such industrial names as Tatra and Liaz in the Czech Republic and Ikarus in Hungary did not survive the 'introduction of markets'. Third, the effect of MNCs was small in relation to the rest of the industry and industrial modernisation was at best partial: while the production sites of the automotive MNCs were modernised, their supplier base was much less developed. The supplier systems of automotive production in Central Europe experienced a strong fragmentation after the break-down of the state socialist in-house production model. As the focus on the 'core competences' has become a mantra of international auto production, the degree of vertical integration has been reduced everywhere.

Table 3: Automotive MNCs in Central Europe

European MNCs	
BMW	Kaliningrad/RUS
PSA	Kolin/CZ, Trnava/SK, Nysa/PL
Renault	Kolin/CZ, Trnava/SK, Novo Mesto/SL, Moskau/RUS, Taganrog/RUS
Fiat	Tychy & Bielsko Biala/PL, Nishnij Nowgorod/RUS
VW Group	
VW	Bratislava/SK, Sarajevo/BiH, Poznan/PL
Škoda	Mlada Boleslaw, Kvasing, Vrchlabi/CZ, Smolensk/RUS
AUDI	Györ/HU, Zaporoshje/UA
ZAZ	Zeran/ Warsaw/PL
UkrAVTOholding	
American MNCs	
GM/Opel	Szentgotthard, Esztergom/HU, Gliwice/PL, Zeran/Warschau/PL, Katowice/PL, Togliatti & Kaliningrad/RUS, Zaporoshje/UA
Ford	Bielsko-Biala/PL, Minsk/BY, St. Petersburg/RUS
Asian MNCs	
Daewoo (until 2000)	Zeran/Warschau/PL, Craiova/RO, Ischewsk/RUS
KIA/ Hyundai	Zilina/SK, Nosovice/CZ Kaliningrad/RUS, Rostow/RUS
Suzuki	Esztergom/HU
Toyota	Kolin/CZ, Jelcz-Laskowice/PL

Source: Rode Interview April 2007, updated by the author

For investors from Western Europe, US and Asia, Central Europe has become a regional hub not only in terms of investment, but also in terms of production. In 2006 the four Visegrad countries plus Slovenia jointly produced two million vehicles. Poland and the Czech Republic are the largest car makers followed by Hungary and Slovakia. The role of foreign investors has also been very important for employment. While in the early 1990s, around one third of the labour force in the automotive sector worked in foreign affiliates, by the end of the 1990s this share increased to more than two thirds (See Table below).

Table 4: Share of employment in foreign affiliates in the automotive industry

Country	1993/1995	1999/2000
Czech Republic	27.9	68.3
Hungary	36.3	74.1
Poland	20.9	65.6
Slovakia	n/a	n/a

Source: Radosevic and Rozeik (2005: 17)

The automotive industry in Central Europe is thus dominated by global production chains where the level of competition is extremely high and pressures for optimisation and good financial results are significant. In other words, the fact that the automotive industry today is organised globally means that the pressures of international competition that the privatised plants experience are strong. Competitiveness needed to be shown in both in terms of production location and in product markets, as foreign companies that acquired

them have been parts of the international value chain and had to survive in the conditions of a strong international competition. For the study of societal re-embedding this means that the institutional change of privatisation, expansion of managerial authority, as well as pressures for optimisation of production and work process have been strong and thus can be associated with Polanyian economic liberalism.

II. Selecting the VW Group

This Section elaborates on the reasons for selecting the VW Group as the site for the case study. Among the reasons for this selection are: the existence of VW subsidiary plants in all four Central European countries since the early 1990s; a common phenomenon of a highly pronounced industrial modernisation that all four plants underwent that indicates a certain level of commitment that the VW headquarters have shown towards their Central European investments and employees; the role of German human resource practices abroad that leave the issues such as wages, working times, social provisions to be decided at the subsidiary level and the relative labour-friendly VW corporate governance. Thus, the choice of the VW Group was based (i) on the argument that the Group was among the rare cases where such a case study could be conducted across the four countries in a consistent manner thus allowing to demonstrate non-economic organising logics as a common post-communist Central European phenomenon and (ii) on the argument that the company might be the most supportive of the re-emergence of local non-economic organising logics due to the experience of an unprecedented industrial upgrading that all four subsidiaries went through.

The VW Group was selected from a number of large MNCs that have dominated the Central European car industry as the Group is the only company that has been present in all four Visegrad countries. In the Czech Republic and Slovakia, it has been dominating the car assembly landscape early on. In 1991, VW Group acquired a stake in Škoda in the Czech Republic and the former Škoda's supplier plant in Slovakia. Only in early 2000s was it challenged by two new-comers: the French PSA (alone and in cooperation with Toyota) and the South Korean Kia/Hyundai. Poland's market was divided between Korean Daewoo, VW, Fiat and later GM/Opel. Ford invested in Bielsko-Biala in 1992 but withdrew in the late 1990s. Fiat bought a majority stake in the Polish FSM with which it was already cooperating since the 1960s. VW started producing cars in Poznan and engines in Polkowice in early 1990s. The Warsaw FSO plant changed its owners several times: first it was sold to the Korean Daewoo, then after its bankruptcy in Korea it was re-sold to

GM/Opel and most recently to the Ukrainian holding ZAZ UkrAVTO. Finally, Hungary was early conquered by VW's Audi, GM/ Opel and the Japanese Suzuki. Audi, a part of the VW Group, started production in Hungarian Györ in 1994. Thus, the VW Group is among the rare cases where such a case study could be conducted across the four countries in a consistent manner: the Group is the only automotive company that is present in all four countries and looks back at almost 20 years of automotive production in Central Europe.

Another rationale for selecting the VW Group is the high level of long-term commitment that the German headquarters have shown towards their Central European investments and their employees. The VW Group allocated significant investments, production and employment capacities to its new Central European subsidiaries. By preserving and building up important local human and industrial capacities in the region the German headquarters have facilitated the preservation and re-emergence of local non-economic enterprise organising logics. The VW Group has been in the first wave of large foreign investors who came to Central and Eastern Europe in the early 1990s and today, the Volkswagen Group is the largest single foreign investor in Central Europe. VW's involvement in Central Europe is exceptional as it has important production plants in each of the four Visegrad countries. It took stock in the joint ventures it entered and gradually built them up bringing them under its full control by the late 1990s.

In 1991, the VW Group acquired a stake in Škoda in Mlada Boleslav in the Czech Republic, and in the former Škoda's supplier plant in Bratislava, Slovakia. In Škoda, after the original acquisition of 31.5% in 1991, VW increased its control share to 60.3% in 1994, 70% in 1995, and finally to a full ownership in 2000. In VW Bratislava, the joint venture started in 1991, the full ownership was acquired in 1994 and the company changed its status to become incorporated as a Slovak company at the end of 1998. The former Tarpan factory in Polish Poznan entered a joint venture with VW in 1993 with original participation of 25.4% and the full VW ownership followed in 1996 (VW Poznan website⁷). A VW engine plant was built in Polish Polkowice. Audi, a producer of luxury cars in the VW Group, bought land and buildings from the RABA plant in the Hungarian Györ in 1993, and production started in 1994.

⁷http://www.volkswagen.de/vwcmss/master_public/virtualmaster/en2/unternehmen/mobility_and_sustainability0/regionen/Europa/Poznan.html

Increases in production numbers since the early 1990s were also very important. Over the period of 1992 to 2005, VW's car production in Central Europe multiplied by four, while its employment increased 2.5 times. It increased the automotive production in the Central European region to two million cars in 2007. In 1990 the share of VW cars produced outside of Germany was 41% but it increased dramatically to 65% in 2000. Today, the VW Group produces 15% of its total output in Central Europe and has 42,000 employees in the region which amounts to around 12% of the company's global labour force of 345,000. Production and employment strategies of the VW Group in all four Central European production locations intensified during the late 1990s - early 2000s. All four subsidiaries have experienced a strong growth in production volumes and a constant build-up of the workforce. VW Slovakia has developed into a big plant: from just over 400 employees in 1992 to 9,065 total employees and 8,700 direct workers in 2006 (VW Slovakia presentation 2007, Holecek). Additional 1,600 employees are employed by an employment agency. VW Poznan employed only around 500 people at the early stages of the joint venture between FSR Tarpan and the VW Group (Winter 2006b). Employment figures more than doubled from 2002 to 2007 (to 6,600 employees) and in 2009 the number of employees reached 6,900. In Audi Györ, the number of employees experienced a five-time increase in the last ten years: from 1,011 in 1996 to 5,373 in 2006. Increases in employment were the strongest during the 'build up' phase in 1996-1999 with around thousand people hired every year (Radi Interview August 2007). Since then the employment has stabilised at around 5,500. Škoda Auto increased its employment numbers from 15,000 in the early 1990s to the total of 26,000 employees with at least 15,000 employees working directly in production. It is thus the largest assembly plant in Central Europe. Therefore, employment increases have been important since the mid-1990s in all four VW subsidiaries representing a strong commitment of the VW Group headquarters to their Central European investments. By building up local labour force, the VW Group has shown its long-term commitment towards Central European investments and thus provided the basis for development and re-emergence of local non-economic enterprise organising logics.

Table 5: Basic data for the four VW Group subsidiaries

Data 2006	VW Škoda	VW Slovakia	VW Poznan	Audi Györ
Established/ Joint venture agreement	1991	1991	1993	1993
Employment	26 000	9 257	6 600 (2007)	5 373
Cars produced	almost 600 000	238 000	442 000	23 675

Source: own compilation

However, among the most important reasons for selecting the VW Group as a site to study local enterprise organising logics has been the exceptional industrial upgrading. Industrial modernisation and upgrading in productive investment as well as production depth and product profiles have represented further evidence of German headquarters' long-term commitment to the Central European production locations. By modernising their Central European production sites German headquarters introduced new economic organisational rationales that focus more on the law of value and economic efficiency but they also showed a certain adherence to the logic of long-term commitment which facilitated the preservation and re-emergence of local enterprise organising logics.

The VW Group invested important amounts into the new production sites, especially since the mid-1990s - early 2000s. In the early years of investment i.e. in the early 1990s a common practice was to bring old equipment from Germany, however, this practice was abandoned in the late 1990s (Interview March 2007, VW Bratislava). Investment in VW Bratislava - somewhat low by international standards in the first half of the 1990s at around EUR 20 million per year - constantly grew in the second half of the decade reaching its peak in 2001 at EUR 350 million. After this major investment wave it came down to around 90 million euro a year. For the period 1991-2006, EUR 1.3 billion were invested in the site (VW Slovakia presentation 2007). Audi also emerged as a big investor. In the early 1990s, investments in Audi Györ were low, but for the early 2000s there have been annual investments of around EUR 350-400 million (Audi 2006: 68). By 2006, cumulatively, EUR 2.5 billion have been invested in the plant not counting the R&D investments (Audi presentation 2007). In Škoda, the original investment plan amounting to DM 9 billion (EUR 4.5 billion) until 2000 was reduced at an early stage to DM 3.7 billion (around EUR 1.8 million) due to financial problems of the mother company (Dörr and Kessel 2000). This move by the headquarters encountered strong criticism on the part of the public and the authorities. The reservations of the Czech stakeholders were only revoked once it was announced that despite this reduction in the planned investment, all planned major restructuring plans would be adhered to, even if over a longer time period and in a more moderate form (Sperling 2004). The overall investment level remained important: until 2003 Volkswagen invested more than USD 1.5 billion in Škoda⁸.

⁸ According to Globalautoindex, www.globalautoindex.com.

Also, the production profiles were modernised. In the early 1990s, the Central European VW subsidiaries had a 'peripheral' production profile: the cars produced were based on the old technology and old models; these were mostly small cars with a simple technology. But over time, VW's strategy was to upgrade its previously peripheral production locations by introducing the most recent models and the newest technology. Thus, what was new in VW's product policy was the upgrading of the status of peripheral production facilities. For the production depth, the evolution was similar. In the late 1990s-early 2000s, the complementary strategy, especially in the field of production complexity, collapsed as more production processes with higher value added were transferred to the East along with certain sourcing capabilities. The following paragraphs describe the strategies of individual VW subsidiaries.

VW Production in Slovakia started very modestly with very low volumes of Passat and Golf, the two major VW sedans in the mid-size segment. The first significant increase in production came in 1998 when the volume tripled from 41,000 to 125,000 within a year. Since 1999 the production mix has been balanced between Golf and Polo, the latter being until recently the smallest VW model. The production further doubled in terms of the number of units produced between 1999 and 2002. The SUV (sport utility vehicle) production started in 1998 in Bratislava. In 2003 came the industrial and technological breakthrough, with one third of production starting to go to the SUV segment and this share increasing to two thirds in 2006 (VW Slovakia presentation 2007) This model strategy that at the beginning ran under the project name 'Colorado' (Mikulikova 2002) was developed in the early 2000s. Thus, today, the Slovak VW plant specialises in high-end low-volume models such as the VW Group sport utility vehicle collection: Audi Q7, Porsche Cayenne and Volkswagen Touareg. The product upgrading thus has been strong.

Škoda's evolution was also impressive but the development was gradual. Most importantly, Škoda was able to retain its brand. Yet although the Škoda brand was kept, the original Škoda cars were of low quality and limited technology base. Two early Škoda models were Favorit that was produced between 1988 and 1994 and Felicia produced between 1994 and 2001. However, over time, the industrial upgrading at Škoda has been strong: its product range has been modernised and the diversity of models extended. The production strategy included integration of Škoda into VW's platform strategy. In this context, the first decisive innovation was achieved in 1996 with the introduction of middle-range Octavia on the Golf-platform. The introduction of the compact car Fabia in 1999 was the second big step

of upgrading as the platform introduced was new and the VW only introduced own vehicle with this platform a year later (Sperling 2004). In 2001, Škoda has even started to expand its segment range by introducing Superb, an upper medium range car. The production of the fourth model line, a minivan Roomster, started in 2006. This production strategy included integration of Škoda into VW's platform strategy. In this context, the first decisive innovation was achieved in 1996 with putting Octavia on the Golf-platform. The introduction of the compact car Fabia in 1999 was the second big step of upgrading as the platform introduced was new and the VW only introduced its own vehicle with this platform a year later (Sperling 2004).

In other plants, no own brand was kept and the plants started producing the established VW, Audi or Škoda cars and components, thus following a less autonomous 'periphery' strategy. Low-segment small and medium-size models have been the main types of models produced: VW Polos in Slovakia, utility vehicles such as T5 and Caddy in VW Poznan. The production of commercial and special purpose vehicles started in the Polish Poznan around the same time. Special destination utility cars have been produced in VW Poznan since 2001, the transporter T5 in 2002 and Caddy in 2003, while TT Coupe of Audi was produced in Györ. Audi Hungaria in Györ represents a somewhat special case in its mix of products, yet industrial upgrading is visible there as well. The evolution of car production at Audi Györ has experienced some upgrading in products through the exclusive rights of production together with the German plant. Audi started to produce its small but pricy cars, the sporty TT Coupe and Roadster, in 1998 and in 2006 the second generation⁹ of TT was launched. The Györ plant enjoys a certain level of exclusivity: in cooperation with the headquarters in Ingolstadt it is the only producer of TT Coupe.

The upgrading of VW Poznan in terms of model choice has been important although less pronounced in comparison to the other plants. As in VW Slovakia, in VW Poznan, decisions on products, sourcing and sale channels are centralised in Germany (Interview March 2007). As far as the product strategy is concerned, it has remained for some time within a periphery realm and moved to a transnational strategy only in the early 2000s. Since 1993, old Polish models of transport cars and since 1994 old Škoda models Favorit and Felicia were assembled there in SKD (semi-knocked down) mode. It is in the early 2000s that the production of first new models, just developed within the VW Group,

⁹ This car is a two-door vehicle in the Audi's medium segment, one of the most modest models of this luxury producer but at a base price range from EUR 33 000 to EUR 44 000.

started: special destination utility cars in 2001, T5 in 2002 and Caddy in 2003 (VW Poznan website¹⁰). Thus, the plant significantly improved its position in the areas of autonomy and product strategy.

To sum up, industrial upgrading in model choice has been pronounced in all four VW subsidiaries. Over time, the subsidiaries were able to acquire exclusive rights within the Group to produce certain models or, at least, models were updated: over time the subsidiaries were able gain tenders for producing the most recently developed models. Thus, at least since the late 1990s, the strategy of periphery shifted to a transnational one where foreign plants compete on equal terms with German plants for the right to produce the newest models. The company thus moved from being a production oriented multinational in the 1970s and 1980s to a globally operating transnational company in the 1990s (Pries 2003). The crucial dimension that has changed in the early 1990s is the change of relationship between the headquarters and the subsidiaries from a centre-periphery relationship to that of an intra-organisational competition. This implies that a clearly defined hierarchy between a 'centre' and a 'periphery' disappeared.

Apart from the change in product profile and underlying technology, the other important change was the 'deepening' of the production process. The level of production depth has increased substantially over the years. Škoda has developed into an almost fully integrated manufacturing plant. It has its own motor and components production. An important upgrading step took place when the construction of a new motor plant was agreed. Engine production is one of the core functions of a car plant; having this competence has significantly improved the standing of the company within the VW Group. Škoda is the only producer of the 1.2 litre engines for the whole Group (Interview December 2006). The company also has its own gearbox production and its own foundry (casting) facilities, press, welding (body shop), painting, important component production (such as gearboxes), quality control and a tool-making unit. VW Slovakia has also experienced the upgrading in the production depth. The Slovak plant has its own motor production; since the late 1990s, VW Slovakia produces several types of engines and gearboxes; their majority is exported within the Group (Interview March 2007). The plant also has its own foundry (casting) facilities, press, welding (body shop), painting and quality control. Like Škoda, the VW Slovak engine production supplies the whole VW Group. Thus, the level of upgrading in the Slovak subsidiary has been high in both dimensions assessed. In VW Poznan, the

¹⁰ <http://www.volksvagen-poznan.pl>

upgrading in production depth has been even more significant. During the 1990s, the plant had an extremely low production depth. A new foundry facility was opened in 1996. Also, after full ownership was acquired in 1996 a more sophisticated CKD (completely knocked-down) production mode of newer Škoda models was introduced in 1997. The component production was further strengthened in 2003. As in the two other plants, apart from the basic assembly functions such as press, welding and painting, VW Poznan has its own foundry facilities, some component production (such as gearboxes) and quality control (VW Poznan website). In Audi Hungaria, the overall production depth for vehicles has remained low. It comprises final assembly and final quality control with painted bodies being imported from Germany (Keune and Toth 2007: 6). However, it would be wrong to argue that the value added in the plant is low: the plant has been an engine plant rather than a final assembler. It has been largely upgraded in its function in the global value chain as far as engine production and sourcing of parts for engines is concerned. Since 1996, engine production has been relocated from Ingolstadt to Györ and the number of produced motors increased from 200,000 in 1996 to 1.9 million in 2006. Today it produces around 400 types of engines for the whole VW Group and it also has received some strategic sourcing responsibilities for the whole VW Group.

In terms of the sourcing decisions, the VW Group is responsible for the platform (engines, gearboxes, axe, cockpit, seats), while Škoda can decide independently on the rest (Dörr and Kessel 2000). What is important, however, is that the company has received important Group-wide functions: it is responsible for the material procurement of the whole VW Group from Central Europe (Sperling 2004: 190). Škoda also has done important investments in the field of R&D and has own R&D centres employing 1,420 engineers (EUR 203 million investment). In the Škoda plant, R&D facilities were preserved also due to a strong voice of local management and unions (Sperling 2004: 187) allowing the plant to remain a full-fledged integrated manufacturing site; only few R&D activities were outsourced (Dörr and Kessel 2000). This achievement is especially impressive given a high concentration of R&D activities at the headquarters. A new development centre was opened in 1999 and another in 2001 so that in 2007 the R&D staff totalled approximately 1,300 (Interview December 2006). Development activities have not been restricted to Škoda's own competence, the upper part of the car: the Czech engineers also conducted development activities for the VW 'platform'¹¹, (Sperling 2004: 187). This evidence clearly

¹¹ Škoda cars share the platform with the VW models in engines, gears, axes, cockpit and seats while Škoda is responsible for the upper part of the car (Nanasi Interview December 2006).

indicates that the company has shifted from a peripheral position of the early 1990s to a transnational position in the product and sourcing strategy within the Group by the early 2000s. In Audi Györ, the R&D facilities are more recent. The company created an R&D centre in 2003-2004, employing approximately 100 engineers working on production process and quality control (Keune and Toth 2007). Today, it produces around 400 types of engines for the whole VW Group and it also has received some strategic sourcing responsibilities for the whole VW Group.

Table 6: Industrial upgrading in the four VW Group East European plants in the 1990s

Transnational strategy of model choice and sourcing			
Low production depth (SKD, CKD)	Škoda CZ mid-1990s (Octavia/ Fabia)		High production depth (Integrated manufacturing, R&D)
	Škoda CZ (Favorit, Felicia) early 1990s VW SK 1990s (VW Polo) VW PL 1990s (SKD Škoda models)	Audi HU engine production 1990s	
Periphery strategy of model choice and sourcing			

Table 7: Industrial upgrading in the four VW Group East European plants in the 2000s

Transnational strategy of model choice and sourcing			
Low production depth	Audi HU car production (since 1998 TT Coupe)	Škoda CZ (Own brand/Octavia, Fabia, Superb since 2001/ New engine plant/ Own R&D facilities) Audi HU engine production 2000s (more exclusive rights and more sourcing autonomy) VW SK (Audi Q7, Porsche Cayenne and Volkswagen Touareg since 2003)	High production depth (Integrated manufacturing, R&D)
		VW PL (special destination utility cars in 2001, T5 in 2002 and Caddy in 2003)	
Periphery strategy of model choice and sourcing			

I described how internationalisation strategies of the VW Group in all four production locations intensified in terms of production and employment numbers in the late 1990s - early 2000s. However, what is even more surprising is the great speed of the *qualitative* upgrading of the Central European subsidiaries. The features of qualitative industrial upgrading – going towards high rather than low production depth and towards transnational

rather than peripheral position in the product choice and sourcing – allow constructing a two-dimensional space in which the evolution of the four plants over time can be traced. Although clearly both dimensions are continuous variables, for simplification they are presented as two-level variables. Table 6 and Table 7 present the changes in the two dimensions when the mid-2000s are compared to the mid-1990s.

The overall picture that emerges is that of a strong industrial modernisation in all four plants. Since the late 1990s, the Group's internationalisation strategies in all four production locations intensified in terms of investment volumes, production and employment numbers. Yet what is even more surprising than the high speed of the quantitative modernisation of the Central European subsidiaries is the qualitative change that is taking place. I observe an important change in both dimensions when the mid-2000s are compared to the mid-1990s. Since the late 1990s- early 2000s, in all four VW Central European production plants I find evidence of upgrading in industrial capabilities in terms of product and sourcing decisions and in production depth. In terms of model choice, during the late 1990s - early 2000s, all subsidiaries were allocated responsibilities for the assembly of new, most modern and sophisticated models. They often became the only sites of production of these products. Some enlargement of autonomy has also taken place in R&D and in sourcing capabilities. Production depth has also increased by moving from SKD¹² to CKD and then to integrated manufacturing mode of assembly and also with the construction and modernisation of component plants.

As already pointed out, the role of the VW headquarters in this industrial upgrading is predominant: the headquarters in Wolfsburg have the decisive competences in the main car production, the headquarters in Hanover for the commercial vehicles and headquarters in Ingolstadt for the Audi brand. The latter is also responsible for product range, product and process standards as well as for research and development. But the competences of the subsidiaries are significant and are growing. We have seen that Škoda has advanced the furthest in this process, but what emerges is the general phenomenon of growing local autonomy and competences in the production process, sourcing and more sophisticated production range for the subsidiaries. These developments have taken place over only a short period of ten years. Thus, the role of 'local factors' has also been extremely important. A fast industrial upgrading in Central Europe stands in a sharp contrast to the evolution of the VW subsidiaries in other parts of the world where a relatively slow

¹² SKD stands for semi-knocked down, CKD stands for completely knocked down

upgrading and partial disengagement of the MNC from the production process were documented. Thus, VW subsidiary in the Brazilian Resende followed quite a different path: the degree of outsourcing has been enormously high. The module suppliers were given all responsibility for cars assembly and thus the outsourcing of manufacturing takes place within the VW plant (Winter 2006b). Also, VW plants in Mexico show a much slower pace of modernisation. The contrast between VW Group subsidiaries of different regions is not explored systematically in this study, but this reference provides a first evidence of the importance of 'local factors' that might have facilitated the strong industrial modernisation in Central European VW plants.

Finally, apart from the important industrial modernization a further factor that has been crucial for selecting the VW Groups as the site of the case study have been the role of German human resource practices in general and the labour friendly VW corporate governance practices in particular. Numerous studies pointed out that German managers and German MNC headquarters have particular, different from the American or Asian investors, ways of dealing with their operations abroad. They allow for a high degree of autonomy in employment relations and human resource practices (Bluhm 2007). Most 'human resource management' issues such as wages, working times, welfare provisions etc. are left to be decided at the company level and are not dictated from the headquarters. Furthermore, Maurice, Sellier et al. underline the role of German practices to adjust the job according to worker's skill. They argue that due to the fact that vocational training is widespread and highly valued in Germany, 'the firms tend to organise production around the norms of the training system' (Maurice, Sellier et al. 1986: 68). Marsden (1999: 34) describes this approach as a 'training approach' in which tasks are allocated according to the skills of employees rather than according to the technical or production necessity. Due to a strong system of vocational training at home, German managers, even if not approaching the work organisation in the Central European subsidiaries with the same degree of openness as they would do it in Germany, might still have a greater respect for local vocational training and technological traditions than some other investors. In other words, German managers are expected to let local ideas and local enterprise organising logics to 'manifest themselves' easier than Asian or American managers would do.

Due to the highly participative VW corporate governance system, even if the MNC has not transferred the labour rights of German workers to Central Europe but has rather adjusted its practices to a more permissive level of respective national legislations, a permanent

confrontation with labour representatives in the subsidiaries is not a viable option for the VW Group either. This fact has made it more probable for local non-economic organising logics in the VW subsidiaries to survive and to be further developed.

III. The multiple case study

The method of empirical inquiry selected in this research project is a case study; more specifically, it is a multiple case study. However, the cases are not selected along the lines of the four automotive plants of the Volkswagen (VW) Group in Central Europe, as the main purpose of the research was not to compare and contrast the national legacies but rather to underline the common state socialist legacy and to explore the post-communist transformation as a single phenomenon. It is thus a theoretical framework that drove the definition of the cases. In this research, the three cases are the three subfields of enterprise activity: enterprise governance and welfare provisions, enterprise performance and work organisation. The decisive factor for choosing these three subfields was the fact that in all three of them one could identify a strong expansion of the law of value and thus of the economic organising logic. In firm governance and welfare provision, this 'economic' logic was the abolition of other stakeholders such as the Communist Party and trade unions, so that managerial authority could expand. Also, a large share of enterprise-based welfare provision disappeared. In firm performance, financialisation of results i.e. establishing strict financial performance targets has become more pronounced. Finally, in work and skill organisation, the desire for higher efficiency led to pressures for de-contextualisation of managerial knowledge and a higher standardisation and Taylorisation of the work organisation.

A multiple case study presupposes the logic of replication for data collection. Such theoretical replication means that each further case has theoretically similar results. In this, the logic of multiple case studies is close to the logic of several experiments. Theoretical sampling of case studies also presupposes a theoretical saturation i.e. there is a criterion for judging when to stop empirical sampling. Theoretical saturation means that no further empirical data can further develop properties of the theorised categories (Glaser and Strauss 1999). In the three present case studies, a theoretical saturation is reached when the argument of a societal embeddedness based on non-economic organising logics is demonstrated in three different subfields of enterprise activities. Introducing a further subfield would not be essential for the validity of the argument.

Conclusion

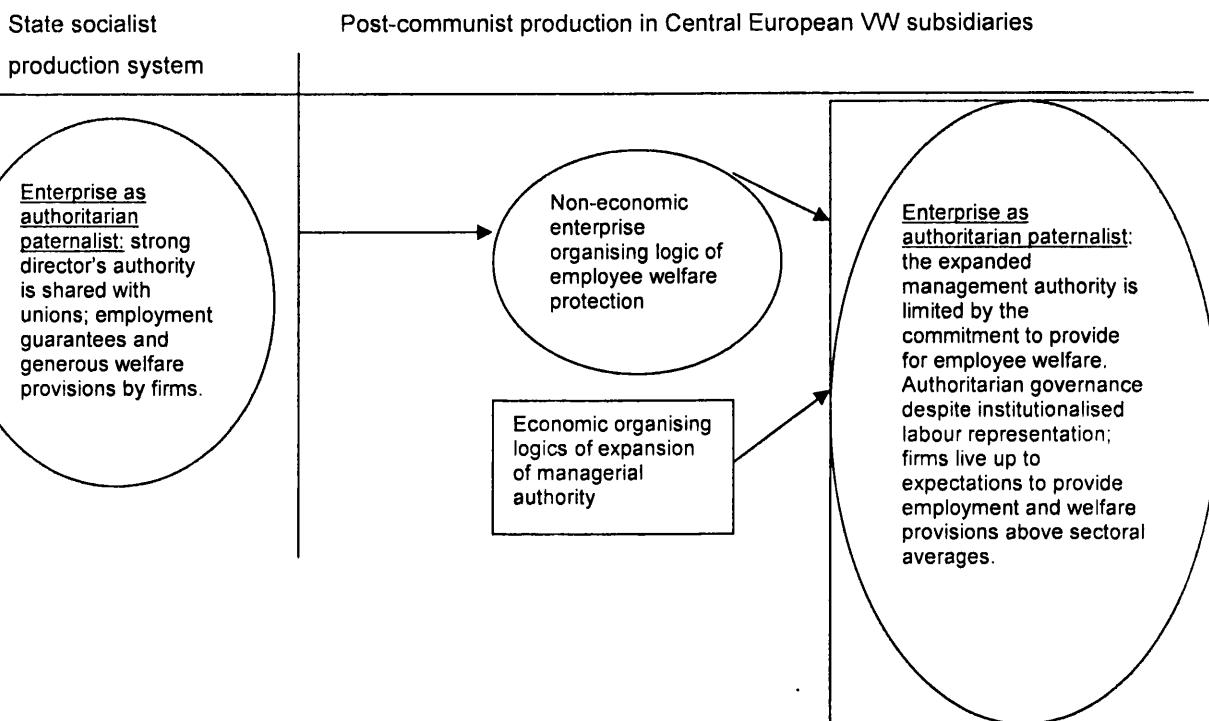
The goal of this Chapter was to elaborate on the criteria for the theoretical sampling of the case study. The Chapter provided the explanation for selecting the automotive industry and a foreign automotive MNC in general and the VW Group subsidiary plants in particular as the site of field work research. Among the rationales for this theoretical sampling I especially underlined the strong industrial modernisation that took place in Central European VW subsidiaries, but also the role of German HRM and certain features specific to the VW Group. The strong quantitative and qualitative modernisation of the VW plants in Central Europe is interpreted as a sign of VW's long-term commitment to its Central European investments, while certain VW-specific and German-specific factors were assumed to be facilitating the re-emergence and development of local normative commitments and obligations – the non-economic organising logics.

V. The authoritarian paternalist enterprise

At the centre of my attention in this Chapter are the organising logics of enterprise governance and employment provisions in the VW subsidiaries in Central Europe. More specifically, this Chapter disentangles the dynamics of the economic and non-economic organising logics: the expansion of managerial authority and its societal embeddedness that together have contributed to the firm functioning as an authoritarian paternalist. The evidence from the four subsidiary plants of the VW Group in Central Europe presented in this Chapter demonstrates that despite dramatic changes in institutional structures, the non-economic enterprise organising logic of authoritarian paternalism survived the institutional change, even if in an altered form. Thus, despite the fact that institutions of managerial authority have undergone a dramatic expansion, the non-economic enterprise organising logic of employee protection re-emerged in the post-communist era.

In firm governance, the logic of economic liberalism took the shape of expanded managerial authority. A stronger concentration of decision making power within managerial authority can be considered as an example of the instrumental logic, the logic of consequence (March and Olsen 2004). It represented a form of Polanyian dis-embedding as stakeholders did not have any strong normative commitments in relation to the new emerging managerial elites and no prior experience that would suggest strengthening managerial power. Furthermore, stronger managerial authority, the non-intervention of other social actors, such as unions, in the enterprise governance and the law of value were idealised: they were seen as a means to 'catch-up' and to modernise. Polanyian societal re-embedding, on the other hand, took the form of restraining this expanding management authority, even if not by directly challenging it, but by constraining and 'embedding' it into the pre-existing normative commitments. These implicit commitments or logics of appropriateness have been managerial and firm obligations of employee welfare protection. Despite changed institutional and legal provisions that enlarged managerial authority, enterprise stakeholders still share the organising logic that the firm is a paternalist 'caretaker' of its employees (see Chart below for a schematic presentation).

Chart 5: Enterprise organising logics in VW subsidiaries: the authoritarian paternalist



As outlined in Chapter III, firms in state socialism were driven by a number of non-economic organising logics. One of them was the fact that enterprise functioned as an authoritarian paternalist. It combined a strong director's authority with the director's responsibility for welfare protection of the company's employees. The non-economic enterprise organising logic had two dimensions: the welfare protection dimension, on the one hand, was expressed through generous provisions related to the protection of the employment status as well as social and welfare benefits provided by the company. The authoritarian nature of firm governance, on the other hand, was expressed in the acceptance by all stakeholders of a strong authority of the Communist Party in the decision making process.

The authoritarian and paternalistic management style corresponded well to the trade unions' role of the 'transmission belts' that merely transmitted orders and information from the Party state to workers. Union functions were not in the field of employee representation but in welfare provisions such as social security and benefits related to holidays, housing etc., so that union membership depended mainly on social provisions rather than on organising. As the union's relationship with their members was very limited, unions were dependent on management. In other words, unions had a function of social service providers rather than

that of social partners. Yet although during state socialism firm governance institutions were never forms of a genuine industrial democracy, trade unions still shared the governing responsibility for the socialist firm.

During the early years of transition, a number of institutional transformations related to firm governance and welfare provisions took place: both management and unions became independent from the Communist Party, many state owned enterprises were privatised and there was a change in the legal provisions concerning firm governance. This implied that at the enterprise level, managerial authority was largely extended, while union role was heavily curtailed¹³. Thus, while trade unions in the state socialist regime were directly involved in the decision making process together with management, these rights were withdrawn from them during the early post-communism. The logic had been that once the links to the Communist Party – and often the Communist Party itself – were dismantled, independent management would steer company affairs in a more efficient way, a way compatible with ‘market economy’, i.e. with the laws of supply and demand and with the law of value.

Privatisation was the second major institutional change that affected many state owned companies, putting foreign managerial elites centre stage. Among several privatisation options, foreign capital was often considered as the fastest way to modernise. The state saw several advantages in allowing foreign capital to participate in the privatisation process: what was expected from the foreign investor was not only technological and marketing skills, knowledge of Western markets and distribution channels, but also some broad ‘Western know-how’, a transfer of knowledge concerning the ‘rules of market economy’ that local stakeholders did not have, the economic organising logic of the law of value. An important distinction needs to be made. Abolishing the dominant role of the Party in enterprise management was an explicit final aim of reforms that followed the logic of appropriateness: the desire to not have Party influence in the field of business and work was based on the experience of stakeholders, it was embedded in the experience of state socialism. However, other institutional changes in ownership and regulation of firm governance followed the logic of consequence: they were seen as a means of transformation, not its final goals, as these reforms were not defined by local experience but rather by ‘experience from elsewhere’ (Soulsby and Clark 2006: 1397). The

¹³ The discussion on the extension of managerial authority refers to the formal process of corporate decision making within the realm of representative industrial democracy. More informal channels of authority and control are discussed in Chapter VII.

expectations associated with the foreign owners and economic liberalism were highly idealised. Privatisation and attracting of foreign owners were means to other goals, such as modernisation, additional financial resources, and access to new markets. In other words, the reforms of economic liberalism taking the form of enterprise privatisation and expansion of managerial authority were examples of utilitarian ethics and the logic of consequence as they were means to another end. Through the introduction of the law of value these institutional changes were expected to have as a consequence modernisation of the enterprise.

In the VW Group subsidiaries, while a high share of managerial decisions was transferred to the German headquarters, foreign capital privatisation meant a strong expansion of the local managerial authority: the old decision-making system consisting of the Party, nomenklatura and trade union representatives was abolished. The expansion of managerial authority was more than a change in ownership; on the wave of political and economic transformation the legal provisions also changed. Post-communist labour laws have largely expanded managerial authority, as during the previous regime company management was in the hands of Communist Party administrators, with unions being their right hand. In the market economic regimes introduced in the early 1990s, labour did not receive any strong co-determination rights. The Czech Republic and Slovakia introduced the obligation for employers to negotiate and conclude collective agreements if unions demanded it, while in Hungary, obligations to negotiate but no obligation to sign an agreement were introduced. From the four countries considered in this study, only Hungary had an early provision for works councils but even this legal requirement was only followed in some large companies. The position of labour was somewhat strengthened in the early 2000s, when national laws were adjusted to the Directives of the European Union (EU) in the wake of the accession of these countries to the EU. Yet, even today, there are still very few legal labour co-determination rights. The existing rights include rights to negotiate collective agreements that define pay and pay systems, working time and over-time as well as a number of minor issues such as planning plant holidays and social funds. Overall, the legal provisions and de-facto power relations within companies both supported the expansion of managerial authority and strongly limited the role of labour.

These institutional changes that strengthen the position of management met with a societal re-embedding, underpinned by the logic of appropriateness. Stakeholders were interested in privatisation and the attraction of foreign owners as means of transformation, but they did

not lose sight of what was considered as the final ends of firm existence. The non-economic organising logic of providing for the welfare of its employees has been preserved. Thus, the non-economic organising logic of firm governance has been that of employee welfare protection. However, the expansion of economic liberalism and the societal re-embedding have not been chronological or sequential. Both logics - the logic of consequence and the logic of appropriateness - have been active at the same time.

This Chapter studies the expansion of managerial authority and societal re-embedding by focussing on the role and self-perceptions of trade unions in the VW plants. In the post-communist period, trade unions needed to re-invent themselves as their old legitimacy based on the support of the Communist Party crumbled. In the new institutional configuration, union role and identity has become that of a 'management's junior partner'. Thus, they do not question managerial prerogative and support managerial efforts to modernise and upgrade the companies. Three elements constitute the evidence for this logic. Section I of this Chapter argues that unions and works councils have remained junior partners to management as they are unable to develop their own agendas that would differ from managerial goals in substantive terms, due to their full concentration on company affairs and extremely weak links to branch unions. Section II argues that despite relatively ample formal provisions of employee rights for information, consultation and supervisory board participation, labour representatives do not use their position to exercise any decisive influence on plant level decision making and thus the daily running of the company is dominated by managerial prerogative. Section III argues that also in collective bargaining over wages and working conditions the role of unions has for a long time remained extremely limited as agreements hardly ever went beyond provisions of the respective Labour Laws. Although more recently, company unions have begun to show a higher awareness of their employee welfare protection function and they argue that it is them who protects the workers rather than management, they still do not feel responsible for certain groups of peripheral workers, such as agency workers.

Despite the de-jure and de-facto expansion of managerial authority, the non-economic organising logic of a 'paternalist' firm has been preserved. Enterprise governance is constructed in a way that employee representatives constrain managerial authority to a certain extent through the commitment of employee protection. The classical argument of union weakness in post-communism that I discussed in Chapter II is thus reconsidered through the prism of the normative societal re-embedding. Unions are weak not only

because they do not have organisational capacity or sufficiently resources or due to harsh legislation but rather because they have only slowly come to realise their protective function, as until recently this was - and still to a large extent is – perceived to be the responsibility of company's management, while unions' role is still perceived to be supporting the production process. Thus, despite dramatic institutional changes, the expectation of the firm commitment towards the employees has been maintained. This logic of appropriateness somewhat counterbalances the expansion of managerial authority and allows the firm maintain its 'authoritarian paternalist' organising logic.

I. Authoritarian governance despite institutionalised labour representation

This Section argues that managerial authority in the daily running of the company has been strongly extended despite the introduction of 'more democratic' institutions of works councils and democratic trade unions. The new institutional forms of industrial democracy introduced after the regime change, such as works councils and participation in the European Works Council did not significantly strengthen the role of labour representatives who remain subordinated to management.

In continental Europe, where stakeholder systems of enterprise governance dominate, managerial authority is counterbalanced by institutions of representative industrial democracy. This enterprise system of corporate governance is based on two pillars. First, there exists a dual form of employee representation (for example, through works councils in Germany¹⁴, committee d'entreprise in France etc.) and thus it 'outsources' the tensions and conflicts surrounding the wage bargaining to the trade unions on the multi-employer level, allowing for company level issues to be discussed and decided in a collaborative and cooperative atmosphere. Second, in many countries, large companies have two-tier board systems - the management/executive board and the supervisory board - and labour has a high weight in decision making of the company through participation on the supervisory board.

¹⁴ The German labour law provides since 1952 for several strong rights for labour in the workplace. Works councils have important rights such as right to information on economic and business performance, right to consultation and the right to co-determination which guarantees the participation of labour representatives in the meetings of the supervisory boards in large companies.

In Central Europe, national legislations provided early on for collectively organised employment relations at the enterprise level through the right to form trade unions. Three people can establish a trade union in the Czech Republic and Slovakia. As far as works councils are concerned, following the German example, Hungary introduced works councils in 1992. However, apart from Hungary, the dual system of representation did not gain ground in the 1990s. Other countries have had a ‘simple’ employee representation through trade unions, if at all. The Hungarian labour law included most of the provisions of the Directive since 1992, when the two-channel system of employee representation was introduced through establishing the information right of works councils. However, a 2005 amendment further strengthened the position of labour. According to the law and restated or sometimes slightly expanded in collective agreements, labour representatives have consultation rights concerning employment contracts, mass redundancies and with regard to measures that concern a large number of employees (Jürgens and Krzywdzinski 2007: 22).

Table 8: Formal labour participation rights in the four subsidiaries of the VW Group

	VW Škoda	VW Slovakia	VW Poznan	Audi Györ
Supervisory board participation	Yes, 1/3	Yes, 1/3	No	Yes, 1/3
Information and consultation	Regular meetings	Regular meetings	Regular meetings	WC active since mid-1990s

Source: own compilation

Yet in the early 2000s these rights were strengthened through adjustments of the respective national labour laws to suit the 2002/14 European Directive on information and consultation. Information and consultation rights were extended through adjustment of national laws in 2001 in the Czech Republic, in 2002 in Slovakia (Kohl and Platzer 2004) and in 2006 in Poland. Works councils were made legal in the Czech Republic, although only in cases when there were no trade unions. The Czech ‘residual’ model (Marginson and Meardi 2006) was an invention that insured trade union power as it established works councils only in plants with no trade union presence. If a trade union was formed, the works council has to be dissolved. This rule allowed the trade union to be the only employee representative in the work place. Slovakia and Poland took over the ‘residual’ Czech model first but in 2003 Slovakia moved to a fully dual system of representation joining Hungary (Kohl and Platzer 2004: 135). Poland’s changed legislation in 2006, finally also introducing works councils in companies with 100 or more employees from 2006 and in companies with 50 or more employees from 2008. However, unions and

management can also sign an agreement about not introducing works councils. In a short period after the passing of the new legislation in 2006, there have been four times more agreements between unions and management not to establish works councils (3965 vs. 1019) (Skupień 2006) than before 2006. Thus, even if works councils are legally allowed, trade unions dominate employee representation in Poland.

Overall, today, there are two models of employment relations in Central Europe. The first group is a dual system of representation that can be found since 1992 in Hungary and since 2003 in Slovakia. The second is that of the Czech Republic and Poland where there are either trade unions or works councils with unions having a priority or at least a possibility of functioning as works councils. Thus, independently from the fact if the formal institution of a works council is brought into existence or not in a specific workplace, information and consultation rights that are stipulated in 2002 EU Directive 2002/14 on information and consultation have been put in place in all four countries by the early/mid 2000s.

The four VW subsidiaries have been precursors on the use of information and consultation rights. In all four subsidiaries labour-management interaction and exchange has taken place almost since the privatisation - through works councils or/and trade unions. In Audi Györ, this relationship is most institutionalised as labour force is represented by works councils that however closely cooperate with unions in the plant. A works council was established in 1994. There are regular monthly meetings with the HR manager and in cases of urgent issues (Kelemen Interview August 2007). Unions and works councils' leaders have shown certain assertiveness in their statements as far as their relations with management are concerned. The union leader explained that the relations with management have not always been cooperative but that unions would like to preserve a stakeholder mode of governance:

German managers know exactly what the roles of trade unions and works councils are. However when they come to Hungary, they leave this knowledge at home and start from scratch but they have to realise that employees have rights in the enterprise (Kiss Interview August 2007).

This assertiveness probably is related to the fact that the management of Audi Györ was the one with the most adversarial attitude as it refused to recognise unions and support the works council in the early stages of its activity (Keune and Toth 2007).

In the other three subsidiaries no formal works councils exist but since the late 1990s, management uses the 'information and consultation' tool extensively in an informal way. In Škoda, information of and consultation with labour representatives has been taking place regularly: a special Economic Committee with representatives of trade unions and management has been meeting regularly (Škoda presentation 2007). Today, unions meet the personnel manager once week, while twice a year there are meetings with the whole executive board (Interview Podhaisky December 2006). The Economic Committee is, however, clearly used to inform the labour force, not to consult it about outstanding decisions. The HR manager in Škoda referred to the Economic Committee as to the 'communication platform' (Interview Podhaisky December 2006).

In VW Poznan the development has been similar. Regular weekly meetings take place between the Union Committee and management representatives. Thus, unions in VW Poznan confirm that they were consulted and informed on a regular basis about all relevant developments (Interview March 2007). These regular meetings between management and unions/ works councils are very useful to facilitate the information flow within the plant. Information and consultation are managerial tools to communicate with the labour force, while unions see their goal in promoting employee engagement in production activities. Only in cases of big crises such as mass redundancies can this tool be used to protect employees as trade unions can then strike a pre-emptive action.

Even in the most institutionalised case of Audi Györ, formal rights of information and consultation have not been seriously used by employee representatives. In its early days, the works council did not have financial or other resources as management refused to provide those. Only over time the works council was able to acquire certain resources (Keune and Toth 2007). Its position however remains subordinate as its consultation and information rights are fairly limited – certain protection in cases of mass redundancies exists as there is a right of consultation in circumstances that affect a large number of workers. It has co-decision rights only in the sphere of provisions for holiday homes and social funds and it has certain consultation rights in training issues. According to its president, the function of the works council is to be a 'direct link between employees and management in the general interest of work peace and long-term preservation of safe and peaceful work process' (Kelemen Interview August 2007).

Labour participation in the supervisory board is the second pillar of the new industrial democracy institutions introduced in the national Labour Codes after the regime change. According to the respective national labour codes, labour representatives are included in the supervisory boards in all countries but Poland. Labour participation on the supervisory board exists in Škoda since 2000, in Audi Hungaria since 1995 (before the legal obligation of 2001) and in VW Slovakia since 1998. In Poland, the law does not require employee participation in supervisory boards and no employee participation exists in VW Poznan. In contrast to the German case where in large companies one finds an almost full parity between labour and employer representatives on the supervisory board, in Central Europe, labour representatives of large companies have a much smaller proportion of seats on the supervisory boards. Thus, labour in VW Slovakia has one third of seats on the supervisory board, while in Audi Györ, there is one employee representative for 13 members of supervisory board (Kelemen Interview August 2007).

Again, as in the case of information and consultation rights, despite providing employee representatives with more information, supervisory board participation does not give labour direct power to influence important enterprise related decisions. Moreover, unions do not seem to take their role on the supervisory board very seriously. In one of the interviews in VW Slovakia, a union member admitted that she was not aware about her boss being a member of the supervisory board (Slovakia Interview March 2007). Also in other plants, union participation in the meetings of the supervisory board has had no implications for union activity. Thus, as has been the case of information and consultation rights, this seemingly more democratically oriented institution continues strengthening managerial authority in the enterprise.

To sum up, in Central European VW subsidiaries, the introduction of more legal rights for workers had only a limited effect on the real powers of labour representatives and the scope of managerial authority has been extended. Labour representatives have not attempted to actively and strategically use their newly acquired rights to participate more actively in decision making of the company. Their verbal assertiveness does not translate into mobilisation or collective action. This evidence from the four VW subsidiaries corresponds closely to the argument on 'weak labour' in post-communist Central Europe presented in Chapter II. The next two Sections attempt to explain this phenomenon. In contrast to earlier explanations, this outcome is argued to be founded on the non-economic organising logic, the logic of appropriateness embedded in the state socialist production system.

II. Company unions as management's junior partners

The main argument of this Section is that based on the experience of state socialist production system and on the new ideas of economic liberalism, union leaders accepted the dominant role of management and contented themselves easily with their new role of 'management's junior partner'. Despite strong membership coverage, trade unions remain largely 'company unions' and thus management's junior partners. In other words, unions do not challenge managerial prerogative and accept the expansion of managerial authority. Even if there is a variety of circumstances related to union resources, union structures and intra-union relations that weaken union's position vis-à-vis management, the role of the economic organising logic of firm governance should not be ignored. In other words, unions themselves believe that a modern capitalist firm needs to have a strong managerial authority.

All four VW subsidiaries in Central Europe are strongly unionised. In the respective national contexts this is an exception rather than the rule. At the national level, unions in Central Europe have seen a very important fall in membership. With some rare exceptions, all EU-27 countries have been facing a decreasing union density. For the last ten years, a fall of 10-20% has been documented. However, the four Visegrad countries still stand out as between 1995-2004 trade union density has literally halved (Eurofoundation 2007). In comparison to the national but also sectoral averages, the first factor that is striking when the subsidiaries of MNCs and especially of western European automotive MNCs are considered is their persistently high union membership. In comparison to the national level unions, the four VW subsidiaries managed to build up and preserve a high level of union membership. While country averages in union density dropped over the last decade to low levels of 30% in Slovakia, 22% in the Czech Republic, 17% in Hungary and Poland (Eurofoundation 2007: 6), the unionisation in the automotive MNCs remained high at 50-90% of the overall labour force and substantially higher among the blue-collar workers. In Škoda, the strongest union is the national based metal worker union OS KOVO. Its coverage rate is high: in 2006-7 the membership rate was 65-67% overall and in two factories outside of the main site that are dominated by the blue-collar workers the membership rate was even higher, reaching up to 85%. In VW Slovakia, the only union OZ KOVO covers 70% of employees, while in Audi Hungaria the two existing unions covered around 50% of all staff in 2007. As Audi was a greenfield investment, unions had to be established anew. However, at the very early stage and despite a 'sceptical' attitude of

management, more than half of the original 500 workers were unionised (Kiss Interview August 2007). Thus, unions managed to organise all four factories relatively early and over the 1990s they managed to build up or preserve a high level of membership. Yet, despite these very impressive membership numbers, the level of union mobilisation and participation in enterprise decision making is low: the junior position of unions vis-à-vis the management is preserved. The junior position of trade unions despite such high membership rates may be a surprise for a Western observer. I consider several explanatory variables for this phenomenon, among them the role of economic organising logics of firm governance.

Union pluralism is one possible explanation for this development. Metalworker unions in the four Visegrad countries are organised in large metalworker federations. However, while in Slovakia and the Czech Republic we find a unitary structure with one large federation - OZ KOVO and OS KOVO in Slovakia and the Czech Republic, respectively, in Hungary and Poland, pluralist structure of unions prevail with metalworkers represented by three different unions - VASAS, LIGA and Workers Councils Union - in Hungary and two unions - OPZZ and Solidarność - in Poland. All these unions existed before 1989 and thus with the regime change, they all faced the challenge to redefine their organisational identity and their goals at the beginning of 'transition'. This was somewhat less relevant for Polish Solidarność and the two new Hungarian unions as they were perceived as 'new' unions and thus did not carry the burden of the communist past. The old metalworker union organisations, on the other hand, 'reformed from within' and re-established themselves. Yet apart from these 'official' unions there is also a large number of 'independent' company unions in each country, even Solidarność is often challenged by other, more left-wing unions. Such a high union pluralism is translated to high pluralism at the company level. In three out of four VW subsidiaries considered in this study there are two unions on the company premises: a large 'official' union and an independent union. Usually, one union is marginal and the other dominates. Thus, especially during the 1990s when their relationships were often characterised by a high level of conflict, union pluralism was one reason for a subordinate union position. More recently, after a phase of conflict during the 1990s, the two respective unions started to cooperate and thus the chances for management to use 'divide and rule' strategy to weaken the common union position have somewhat diminished.

Second, financial and organisational resources of unions remain extremely limited. In Audi Hungaria, these accounted to 1% and 0.5% of their wage for VASAS and the independent union, respectively. Also, company support remained for a long time very limited. Only since late 1990s unions can also increasingly rely on company support, financial and other. With the exception of Škoda that has 20 full-time union members, there are only very few unionists who are paid by the company to do union work full-time. In VW Slovakia, there are ten people working full-time and half of them are paid by the company; this includes five 'people of trust'. In Audi Hungaria, there are two full-time labour representatives - the chair of the works council and one trade union representative – who are paid by the company. Also, most resources are concentrated on dealing with employee concerns rather than developing own strategic positions. The rest of the membership fees are put in a special fund. Yet overall Central European unions do not enjoy the strong institutional and organisational support that labour representatives have in many other continental European countries such as Germany.

Third, apart from the lack of finances, ideological differences often prevail between the branch and company level unions. Thus, VASAS union representative at Audi Györ stated that their relationship with the branch level union has been at arm's length because the 'branch level union still has not overcome the legacies of the previous regime' (Interview Kiss August 2007). This organisational and ideological separation between company and branch level unions is another reason behind the weakness of the branch level unions and their incapacity to generate alternative ideas on work organisation and company governance. A further related reason is the fact that branch level unions prefer to focus on two specific issues that they consider more urgent than company governance: first, recruiting new members in the SME sector that is largely unorganised and, second, developing union positions to broader economic reforms and legal reforms that post-communist governments have been dealing with during the last 20 years and in which unions participate through tripartite fora (Mifka Interview March 2007).

Thus, we have seen that a number of institutional, organisational and ideological factors contribute to union weakness. Yet among the factors behind unions' junior position vis-à-vis management, the role of the logic of appropriateness that constitutes the organising logic of firm governance is crucial. In Central Europe, metalworker unions tend to be company unions. It is a company-based union identity that makes unions have their company as the main focus of concern and thus not be interested in developing and

supporting the branch level unions. In addition, in some companies, such as Audi, the independent unions prevail and thus the link to branch level unions does not exist. Thus, independently from the union being part of a larger union federation or being fully 'independent', the profiles and strategies of unions have not been coordinated or guided by branch level unions, as the links to the higher level unions are practically non-existent. The main reason for that can, again, be found in the legacy of state socialism, when unions were dependent on the Communist Party and were highly atomised. This atomisation reached such a high level that when a worker changed the company even within the same sector, he or she would have needed to join the union again in the new company (Rode Interview March 2007).

This high level of atomisation has been preserved in the self-perception of unions even if institutionally branch and higher level union structures still exist. The VW subsidiaries are no exception to this rule. Company unions have only very little interaction with the branch level and thus there are no strong branch level union elites that could engage into strategic thinking about own concepts and policies. Only a small proportion of enterprise level funds goes to the branch level. The VW subsidiaries are flagship companies with huge number of members in comparison to the rest of the economy, yet their contribution to the branch union funds is relatively limited. In Škoda, only 25% of the membership fees goes to the national level of OS KOVO (Eurofoundation 2006). In VASAS, it is 50% of member fees collected at the company level that go to the branch level unions but this figure is undermined by the fact that this union is very small, having lost most of its members to the independent company union. Furthermore, in most instances and especially pronounced in Poland, membership in the branch level union is not automatic but requires a joining fee that many company level unions cannot afford to pay (Cibiera Interview March 2007). This contributes to the fact that branch level unions are understaffed and short of financial and organisational resources to develop their own alternative to management concepts.

If the national and branch level unions do not play an important role in supporting company union independent identity, thus downgrading unions to 'management's junior partners', one could wonder if international union cooperation could at least partially take over this function. The integration of union representatives in the European Works Councils (EWC) of the VW and General Works Council of Audi AG are further institutional evolutions that could strengthen union position within the plants. Yet the evidence does not seem to support this hypothesis so far. The impact of international union cooperation is insufficient

to really make a substantial difference on development of own concepts and perspectives that would be different from those of management. As far as the integration in the EWC is concerned, in 1994, the European Union legislation provided for creation of EWC in companies which are active in more than two countries and have a minimum of 1000 employees. The EWC in the VW Group exists since 1992 i.e. before the European legislation, and the representatives of Central European subsidiaries have been a part of it from early on. Since Škoda's incorporation in the VW Group in 1991, first three, then two of the trade union representatives have been participating in the VW European Works Council. Other VW plants have been participating in the VW EWC from early on as well. In the case of Audi, also from early on and before joining the EU in 2004, Hungarian WC representatives have been attending the meetings of Audi's 'Gesamtbetriebsrat' – General Works Council. Yet the exposure to international dimension has been only limited in promoting an independent union identity and position. Union and works council representatives in Audi Györ explained that in a situation of conflict with the management, contacts with the German works councils in the headquarters were more helpful than annual meetings in a large international circle (Kiss Interview August 2007).

Thus, despite high levels of union membership, unions remain in their 'junior partner' role in relation to management and thus indirectly support the expansion of managerial authority. No own agenda was developed on issues of work organisation, while union control over work place organisation and arrangements is low. In three out of four cases, company unions play the role of works councils in their daily interaction with management and in the fourth case there is a close cooperation between works councils and trade unions. One could have thought that this would foster the development of independent concepts of work organisation among labour representatives. Yet this has not happened. In VW Slovakia, until mid-1990s, trade unions are described by the personnel manager as being 'dependent on the management' (Holecek Interview March 2007).

Finally, the economic organising logic of enterprise governance that supports the expansion of managerial power has come to dominate also trade unions' way of thinking. This becomes obvious when the unionist and works council leader at Audi Györ states when speaking about company's governance that 'it's not a democracy here' (Kelemen Interview August 2007). At large, unions leave management 'to manage' while unions take care of worker grievances. This approach was tellingly described by a German expatriate manager in VW Slovakia when he looked back at the introduction of changes in work organisation:

It is not like we do not communicate here with unions but the resistance and all the doubts/objections that you would get in Germany, these doubts are here much smaller. In Germany, you have to describe all the projects in great detail before you can implement them. Here, it is a trial and error approach (Zeller Interview March 2007).¹⁵

Thus, despite institutionalisation of certain limited legal labour representation rights during the late transition, the economic organising logic of authoritarian firm governance has become dominant. Managerial authority has been expanded and became the dominant feature of firm governance, with unions adopting the role of 'management's junior partners'. Among the factors that have contributed to this outcome are union structures, internal union divisions, lack of resources but also the economic enterprise organising logic of unions that accept the dominant management position.

III. Enterprise as a welfare protector

While the last Section described the authoritarian logic in firm governance that remains dominant despite important institutional changes of privatisation and institutionalisation of certain labour rights, this Section deals with the non-economic organising logic of enterprise governance, that of the welfare protector. Because '[m]oral considerations and social ties of an economic actor limit his strategic options and thus also his power'¹⁵, (Streeck 2007: 15), this other enterprise logic provides – if not a counter-balance – then at least a certain limitation to the expansion of the managerial logic described in the previous Section.

The non-economic enterprise logic that I refer to is that of a 'welfare protector'. This enterprise organising logic is not unique to post-communism. The phenomenon of 'welfare corporatism' was described for Japanese companies (Dore 1973) as well as later for large American companies (Lincoln and Kalleberg 1985). Thus, more generally, 'core' firms in dual economies tend to have work and employment practices associated with welfare corporatism. Yet, in post-communism, non-economic enterprise logics of state socialism have certainly been an important factor behind this phenomenon. As enterprises were responsible for providing welfare and employment benefits during state socialism, in post-communism, the enterprise and the management are still expected to ensure an appropriate wage level and employment benefits and social conditions such as holiday provisions while

¹⁵ Own translation

unions do not see themselves responsible for ensuring appropriate wage and employment conditions of employees.

Important institutional changes took place during post-communist transformation in the field of employment contracts and wage setting. First, employment contracts as well as wage setting were liberalised and freed from the dictate of Party-led administrative planning. However, a certain re-regulation subsequently took place providing a new legal framework. Today, employment contract provisions are regulated to a large extent by the provisions that are set out in the respective Labour Codes and in collective bargaining agreements. Collective bargaining was introduced in 1990 in Slovakia, 1991 in the Czech Republic, in 1992 in Hungary and in 1994 in Poland. Yet collective bargaining at the branch level remains an exception rather than the rule; single employer bargaining dominates Central Europe.

In the case of the VW Group, most issues of human resource management have remained a prerogative of local management where headquarters do not intervene. Despite the fact that these company level collective agreements represent a new, post-communist type of institutional arrangement, what emerges behind this new institutional framework is that the firm is still a paternalist towards its employees. Collective agreements show a very limited negotiation position of employee representatives, with management in control and defining most of provisions when agreements are concluded. Thus, as far as conditions of employment contracts are concerned, unions to a large extent rely on state provisions and management's goodwill to define those. As far as wage increases are concerned, unions for a long time have not seen it as their most important task to push for higher wages, neither during the times of early transition when real wages were falling, nor in the late 1990s-early 2000s when the enterprises had a very high productivity growth. The Section argues that wages slightly above branch level averages and indexation of wages only to the level of inflation have long remained the scope of union goals. Only very recently, this approach of implicit wage moderation of unions was replaced by more pronounced demands of higher wage increases.

In the three VW subsidiaries in Slovakia, Poland and the Czech Republic, the first collective agreements were already concluded in the early 1990s. In VW Slovakia the first collective agreement was signed in 1993, and subsequently renewed every two years. Similarly, at Škoda collective agreements are concluded regularly since the early 1990s. In

Audi Györ, a first collective agreement was signed only in the early 2000s. Today, collective agreements exist in all four plants with wages, working time and work organisation being the three central issues at stake. These agreements follow practically the same format everywhere: while wage agreements are concluded for one or two years, further issues on working time etc. are re-negotiated in a five to three year rhythm. The dominance of the management in signing collective agreements has been especially visible in Audi Györ, where the management has been looking for a 'win-win situation'. Collective negotiations between unions and management took place for six years without an agreement and only in 2001 the management became serious about collective bargaining as the national employment law was amended introducing more possibilities for negotiating working time flexibility.

MNCs have been in a comfortable position in Central European countries as they can pay wages above branch averages but still keep remuneration far below the productivity increases. Thus, VW, like most other large MNCs, has been famous for paying wages above branch averages but wage increases mainly cover inflation increases and do not cover a substantial part of productivity increases thus they do not always allow maintaining the purchasing power and achieving 'a balanced participation in productivity increases', as the European Metalworker Federation coordination rule demands (EMF 2006: 49). Thus, Škoda has been the sixth¹⁶ employer in terms of wage levels in the Czech Republic (OS KOVO Interview). With their wages at 660 euro in 2001 (Mikulikova 2002) and at 730 euros in 2007 Škoda employees were 10% above the national average (Handelsblatt 02.05.07¹⁷). VW Bratislava's pay conditions are also above sectoral collective agreements as well as above sectoral averages. The average wage in VW Slovakia was 602 euro in 2001 (Mikulikova 2002) and 657 euro (32,000 Slovak Krona) in 2006 which was practically twice the national average of 18,000 krona.¹⁸ In collective negotiations in VW Poznan, trade unions managed to achieve wage increases above inflation indexation, but the margins remain low. Upon its establishment in Györ 1993, Audi Hungaria set wages at a very low level – 32,000 forint – but still remained 15% above the branch average of competitors. In 2007, the average wage in the plant was 800 euro or 200,000 forint (Kiss

¹⁶ With TRW occupying the first, Bosch the second place

¹⁷ Article 'Das Kreuz mit den Kosten'

¹⁸ TPCA first tried to recruit people to work on 8,000 CZ krona per month (Voles Interview 12.2006) The starting wage level today is gross 12,000 CZ K which is 400 euro and 800 euro in PPP.

Interview August 2007). But this important increase in nominal wages can be explained to a large extent by high inflation levels in the 1990s (20-25% per year). In spite of this large increase of approximately 10% per year over a 15 year period, most of the time wage increases were just covering inflation (Kiss Interview August 2007). Thus, despite high union density and thus potentially high mobilisation, real wage increases in four VW subsidiaries have been kept very low, especially when compared to the high productivity increases.

One reason behind this weakness of collective agreements is inadequate or absent higher level collective agreement provisions. Although in Slovakia and to a lesser extent in the Czech Republic, higher level collective agreements exist in the metalworking sector, they do not cover automotive industry. In Poland, branch level negotiations in the metalworking sector took place for several years and then collapsed in 1997, due to refusal of employers to continue negotiations due to difficult economic circumstances (Konowrocki Interview March 2007). The Hungarian unions probably receive most support from the branch level: the National Interest Reconciliation Committee in which representatives of branch level unions participate, formulate guidelines for individual sectors that deal with wage increases and certain other issues. The nominal wage increases that the Committee suggests are based on inflation and the sector's last year's productivity and represent 'the floor' for company negotiations. They are thought to allow company level unions to have a stronger position in the negotiations with the management (Szöke Interview June 2008). Yet these guidelines are not obligatory and it is difficult to say if they have an impact on wage increases. Thus, the weakness of company level agreements can partially be attributed to the non-existence of higher level collective agreements.

Structural factors thus are important in explaining the limited protection function of unions; however, the normative dimension also matters. Until very recently, company unions did not see wage increases as their main field of action. For a long time, there were only very few tensions in the collective bargaining process. Only recently the situation has started to change. In Škoda, the unions threatened to go on strike in 2000 and 2001, but unions and management managed to reach a compromise after all (Mikulikova 2002: 50). Apart from that, unions did not use their strong membership base to establish more conflictual position with the management over wages. Cooperation with the management was the norm up to the mid-2000s as wage increases were considered broadly appropriate. Only since the mid-2000s, the situation has been gradually changing with union wage demands becoming

somewhat more pronounced. During the round of wage bargaining at the Škoda Auto in spring 2007, a compromise was reached setting the nominal wage increase at almost 13% with expected inflation rate of 2-3%. In VW Slovakia, the wage negotiations that were concluded in early 2007 resulted in a wage increase of 7.5% for two years, somewhat above expected inflation. In Audi Hungaria, the wage negotiations for 2007-2008 resulted in a wage increase of 7-10% (increase was a fixed sum) with an expected inflation rate of 6%. On several occasions the wage negotiations become more prolonged and tougher, lasting sometimes several months, as the examples of Škoda and Audi Györ show. This can be interpreted as a slight increase in assertiveness among trade union leaders. Yet despite this somewhat more pronounced wage growth and tougher wage negotiations, real wage increases still remain far below the double-digit productivity increases. Thus, the 'welfare protection' side of collective agreements between management and unions is fairly limited; it is thus still up to the managers to set up satisfactory wage provisions.

An explanation for such a limited engagement of unions in the area of wages is the non-economic organising logic shared by unions and management that it is the company that should provide for employees' welfare. This widely established organising logic that sees firm director and firm management as a welfare and employment protector and provider has been extensively documented in the literature on post-communism. For instance, Zaslavsky writes about a 'state-dependent worker' (Zaslavsky 1995). Also, Hungarian unionists, when describing the consequences of mass redundancies that took place in the automotive industry in the 1990s confirmed that 'for some people, [a redundancy] is a tragedy' (Interview Csурго December 2008). They pointed out that in the Hungarian language the word for a self-employed person – kényszervállalkozó – literally translated means a desperate or a forced self-employed individual (Interview Mezo December 2008). Being self-employed is considered to be an exception rather than the rule; a default option for the vast majority of people is still to be employed.

As far as the VW subsidiaries are concerned, this shared non-economic organising logic of the enterprise being a welfare protector of its employees has been preserved. So far, the management has fulfilled this logic of appropriateness by paying wages slightly above the national and sectoral averages, as shown above, and by providing certain further employment and welfare benefits above the legal requirements. For example, Škoda's weekly working time is fixed by collective agreement at 37.5h which is below the 40h limit set by the law. Similarly, in VW Slovakia collective agreement fixes the official working

time has been at 37.5h, down from 40h prior to 2004 (Petrova Interview March 2007). One more improvement that has been emphasised by the HR manager at Škoda are holiday provisions: Škoda's employees are entitled to five weeks holidays, while the law provides only for four weeks (Podhaisky Interview December 2006).

Furthermore, MNCs are famous for providing more stable employment contracts, thus working in a MNC increases individual employment stability. Open-ended employment contracts are still the most common scenario even if some flexibility has been introduced in national labour laws, such as the possibility of several consecutive fixed-term annual contracts. In VW Slovakia, the collective agreement provides some protection against mass redundancies in the form of promises of 'appropriate activities that would stop or reduce mass redundancies' as well as a requirement that individual cases of firing are discussed with the unions (Volkswagen-Slovakia 2007: 8). In VW Slovakia, an annual employment contract is changed into an open-ended contract after the first year, while the law allows for three follow-up annual contracts. Taking into account the general casualisation of the employment relationship across the post-communist economies, this additional stability of employment that is associated with MNCs is highly valued by the employees. Although these provisions have been negotiated collectively, there is only a limited role of unions as most MNCs have such arrangements (change from fixed-term to open ended employment contract after one year) (Mikulikova 2002). In Audi Györ, the vast majority of 5,400 employees have an open ended contract after a three months probation period, and there are only 300 employees on fixed-term contract whose annual contracts have been renewed for another year, while national legal provisions allow fixed-term contracts to be renewed five times (Radi Interview August 2007). Thus, employment stability, as set out in the employment contracts, is largely regulated by the state and company management and unions can only rarely claim a role in improving these conditions.

The organising logic that sees the enterprise as a welfare protector is reinforced by perceptions that MNCs are 'good employers'. The general perception is that large firms are better as, as discussed above, they are more stable employers, but also providers of many additional welfare benefits such as additional 13th wage, health care, holiday vouchers etc. For example, in Audi Györ these additional provisions amount to 200,000 forint or 800 euro per employee per year. Thus, despite the fact that the wage gap between MNCs and sectoral local averages became much smaller than what was the case in the early 1990s

when these firms were first recruiting, these additional benefits represent an additional attraction of MNCs, strengthening their ‘welfare protector’ function.

More generally, the often reported image of VW Group as a ‘good employer’ is an example of the non-economic enterprise organising logic of a welfare protector. During state socialism, turnover rates in the peripheral reserve labour force were high. They had a negative but not disastrous effect for production because the missing workers did less harm to the production process than what would be the case in a modern capitalist economy. During economic transformation, economy-wide labour turnover increased dramatically. This has often been attributed to low wages. However, the majority of MNCs – although there are a number of notable exceptions to this rule such as TPCA in the Czech Republic – were able to build up a reputation of ‘good employers’ so that the enterprise organising logic of the welfare protector was preserved. The VW subsidiaries are such examples with relatively high perceived employment stability. It has been underlined in the interviews that the average tenure of the workforce in the VW subsidiaries is still exceptionally high. Thus, Škoda’s average tenure has remained high, at 11.9 years, despite the low average age of employees of 38 years (Škoda 2005). In VW Slovakia, labour turnover has been more severe. Thus, already in the mid-1990s, retention has been a problem due to low wages, long distance commuting and high labour intensity. In Audi Györ, the human resource manager was proud to report that the turnover rate had been going down and had overall been below the national average. The rate was 1% per month in 2000, while the goal was 0.4% (Radi Interview August 2007). Overall, compared to the national data, these turnover problems remain limited.

Thus, in the VW subsidiaries, the usual tenure remains high, above the national average. This has been emphasised by stakeholders as a genuine advantage. The above average employment stability is an additional bonus for employees who value the ‘protectionist’ function of the company. To demonstrate the popularity of working for a MNC, the trade union leader in Audi Györ proudly reported how in 2006 there have been 2,000 candidates for 100 positions (Kelemen, Kiss Interview August 2007).

To sum up the argument, in most cases the ‘company’, rather than the trade union, is associated with the employee ‘welfare protection’. Neither the wage premia that these companies’ employees have enjoyed in comparison to the sectoral averages, nor the employment stability, nor the attractive additional benefit packages were based on unions’

efforts or class struggle. Most of these company advantages were given by VW subsidiaries to their employees due to the goodwill of management. If the goodwill of the employer was not there, it is difficult to imagine these benefits would still be provided.

The previous paragraphs elaborated on the fact that the enterprise has been conceptualised as an authoritarian welfare protector. Trade unions do not need to insist on this non-economic organising logic because management lives up to the employee expectations of employment stability and welfare provision. Yet a qualification of this argument is needed: not all employees enjoy this enterprise protection, as certain groups are excluded from it. The organising logic of the authoritarian welfare protection does not seem to apply to them. This goes back to the state socialist tradition of internal labour segmentation. During post-communist period, the internal labour segregation remained: segmentation of the labour force into the core and periphery has been one of the characteristics of work organisation. Today, peripheral workers are employed by employment agencies rather than by the production plants themselves; they are low paid and not unionised.

In Germany, employment security has been at the heart of IG Metall's involvement (Jürgens 1997: 112). In German VW plants, unions were able to influence the working conditions even for people on different types of contracts (Jürgens and Krzywdzinski 2006). In contrast, in Central European subsidiaries, this has been a field where unions have not played any role. All VW plants have a higher level of external flexibility than VW Germany with higher levels of agency work which is not covered by collective agreements. Overall, in the Visegrad countries, when comparing across sectors, the automotive industry has one of the highest numbers of agency workers as a share of the total workforce. This share of agency work is around 10% but can go up to 30% during peak production periods.

Although the share of agency workers varies from plant to plant, the overall recourse to external flexibility is larger in VW subsidiaries in Central Europe than in Germany (see table 9 for overview). Škoda had a total labour force of 26,000 employees¹⁹ with 15,000 blue-collar workers in 2007. In 1996, Škoda employed 1,300 agency workers with high month-to-month fluctuation. In the mid-2000s, almost one sixth of the total labour force, 4,000 workers had temporary contracts and were 'leased' from an employment agency (Eurofoundation 2006). In VW Bratislava, cooperation with employment agencies started

¹⁹ The main plant in Mlada Boleslav had 22 000 employees, with two others Kvasiny and Vrchlabí employing 1 700 and 1 100 people, respectively.

in as early as 1998. In 2007, the plant had a total of 10,800 employees, with 9,300 core employees and 1,600 blue-collar workers employed through nine employment agencies. At the beginning, the share of contractuels who were practically all blue-collar workers was relatively low at about 5% of the workforce; in 2007 this share increased to 18-20% (Holecek Interview March 2007). The situation is similar in Poland. In 2007, VW Poznan had 6 600 employees, but only one third were core workers; one third had temporary contract and one third were hired by an employment agency. Audi Györ started its cooperation with temporary agencies in 2006 due to changes in legislation which made this possible. So far, it had the lowest number of agency workers – in 2007 these were 260 out of 5,400 overall and out of 3,200 blue-collar workers. Yet as the HR manager made clear, such low recourse to agency workforce is only due to changes and missing clarity in the national labour law:

First, in 2003-2004, upon introduction, these new provisions were free. Yet in July 2007, there has been a change in the labour law. Employment agency workers have more and more rights in other industries like construction. This is why firms are afraid of using these new provisions as they are afraid that workers might slowly change their status of employees (Radi Interview August 2007).

Table 9: Use of agency work in VW Group plants

Plant	Share of leased employees in total staff	Represented by unions
VW Germany	Around 5%	Yes
VW Škoda	15%	No
VW Bratislava	18%-20%	No
VW Poznan	33%	No
VW Audi	4%	N/A
For comparison:		
Opel Bochum	20%	Yes
GM Opel Gliwice	5-10%	No

Source: own calculation on the basis of diverse sources, including interviews

In addition to agency workers to whom the ‘protection function’ of the enterprise does not extend, a small number of employees are ‘borrowed’ from other companies, such as supplier companies. Although the work of these employees is highly integrated into the production process of the assembly plant – they practically do the same work as VW employees – they are also not covered by the enterprise ‘protection function’: their remuneration and collective representation rights are different from those of the core labour force (Interview December 2006). In certain cases, these workers are covered by other companies’ collective agreements, but in many cases they are not covered by any

agreement. The employment conditions and remuneration of agency workers are substantially lower than these of 'core workers'. At Audi Györ, their wages represent on average 50% of the Audi workers average; they do not receive any additional benefits that Audi workers enjoy such as holiday or meal vouchers. For these workers, 'we just have to fulfil labour code requirements', reported the top HR manager (Radi Interview August 2007).

In Germany, agency work in VW plants amounts to around 5% of the overall workforce and is covered by collective agreements. Trade unions have achieved that they can represent and bargain for contractuels (Jürgens and Krzywdzinski 2006). For Central European VW subsidiaries, this has not been the case so far especially because in this field there are no legal obligations to have a union agreement. But in most cases, unions also do not feel responsible for the agency workers. When asked why this is the case, the Solidarność union leader from GM/Opel explained that representing agency workers would be difficult as it is not clear who is their employer, the agency or the firm and thus it would be difficult to know with whom to negotiate the collective agreement (Cibiera Interview March 2007). In Škoda, the experience with non-core workers went far back into the state socialist era which might explain why the trade union's stance has been overall quite unsupportive of peripheral workers.

Before 1989, Škoda employed prison labour to take care of undesirable jobs (Pavlínek and Smith 1998). The company employed up to 1,600 prison convicts and 1,520 Vietnamese workers. The convicts worked in the oldest and physically most exhaustive parts of the production line, e.g. they made up 90% of the press shop (Pavlínek 2008: 79). In the early 1990s, the distinction between the core and periphery workers was very pronounced. When production numbers were volatile, employees – mainly foreign workers – were laid off (Pavlínek 2008: 87). In the mid-1990s, the situation improved slightly. Škoda unions seemed to have gained a slightly stronger position and were able to partially protect non-core workers. In 1995, employees of module suppliers that were employed on the premises of Škoda were covered by Škoda negotiated collective agreements concerning wages (Dörr and Kessel 1995: 19). Furthermore, employees of module suppliers could participate in 'all social service provisions of Škoda – from parking spaces, canteen and social rooms to company health care centre and enterprise health insurance funds' (Dörr and Kessel 1995: 20). The company also has the obligation to take back those employees who were working for the module suppliers.

Yet later reports show a less optimistic picture. What Škoda ended up with was a production process with suppliers directly integrated in the assembly production process. This mechanism that has also been described as ‘strategic insourcing’ (Pavlinek and Smith 1998: 627) which means that component producers bring their products and assemble them directly on the Škoda premises. The employees of these supplier companies working at Škoda are not covered by collective agreements, have thus lower wages and fewer rights than the core workers. In addition to ‘strategic insourcing’, agency workers remained the norm. Interestingly, to underline the difference between the core ‘labour collective’ and the periphery agency workers, the latter are hired from Poland (Pavlinek and Smith 1998). For peripheral workers, the non-economic enterprise organising logic of welfare and employment protection does not seem to hold; they experience a far greater degree of commodification of work. Pavlinek reported that Škoda management was planning to ‘replace Polish workers with cheaper and, according to one manager, “less demanding” Ukrainian labour’ (Pavlinek and Smith 1998: 628). Thus, the argument of enterprise’s continuous organising logic of ‘welfare protection’ does not extend to the peripheral labour force due to ideational reasons: these workers are considered to be outside of the enterprise’s sphere of responsibility and thus the enterprise management does not feel the obligation to protect these workers. This attitude has been shared by unions that did not feel responsible for protecting the welfare of the peripheral workers.

However, some recent developments seem to suggest that union identity as pure company unions has started to change, albeit slowly. First, in September/October 2007 Poland saw the signing of a cooperation agreement among Solidarity trade union leaders from seven automotive companies. Their main goals are pay increases and improvement of certain working conditions but this cooperation intends to strengthen the position of individual unions in respective companies (Towalski 2007). Although pay and other matters still remain to be negotiated at the individual company level, this initiative of inter-company union coordination and information exchange is a step towards a union activity whose impact can go beyond the company level. Second, for the first time the issue of temporary workers was included into the agreement between management and unions at Opel Gliwice collective dispute that ended in November 2007. The company agreed to change the status of some of the workers from temporary to permanent. It declared that the policy of taking over temporary staff would become a regular company policy, and it also defined a ceiling for the share of temporary staff in the company’s overall labour force (Czarzasty 2007). Yet

the scale of these recent union activities remains very limited and cannot be considered as a structural break with what we have observed for the past two decades.

To sum up, during the transition period, the firm's management has been expected to provide for workers' employment and welfare. The non-economic enterprise organising logic of 'welfare protector' has been preserved despite a dramatically changed legal and institutional regulation of employment relationship. It is only slowly that this enterprise norm has been changing and unions have been feeling more responsible for protecting the labour force.

Conclusion

This Chapter describes how managerial authority expanded, representing a Polanyian movement of economic liberalism, but how despite the strong institutional change led by the economic logic of consequence, certain dimensions of a non-economic logic of appropriateness have been preserved. The expansion of managerial authority followed the instrumental logic related to economic liberalism. The logic that all stakeholders, including union representatives, share has been that management needs to have the full freedom to 'govern' the company, as a means to some other higher goal. Despite the legal position of labour representatives, such as unions and works councils, improving over the years, employee representatives remain management's junior partner. Firstly, the metalworkers unions have not managed to come up with their own concepts concerning firm governance remaining *de facto* company unions. They closely follow managerial arguments and prerogatives around production and upgrading. Secondly, unions have not identified wages as their main focus, and, despite high membership rates, they have not challenged management on wage issues despite very high productivity increases. Pre-emptive concession bargaining has been the norm.

However, the expansion of managerial authority has been at least partially counterbalanced by a stakeholders' non-economic organising logic of firm governance which is informed by the logic of appropriateness. According to this organising logic, one of the final goals of company functioning is its role of a 'welfare protector'. Unions did not try to challenge the strong managerial position because the organising logic of the firm acting as employee welfare protector has remained strong, also in trade union thinking. Unions did not need to insist on this common organising logic because the VW management lived up to the employee expectations of high (or at least above-average) employment stability and

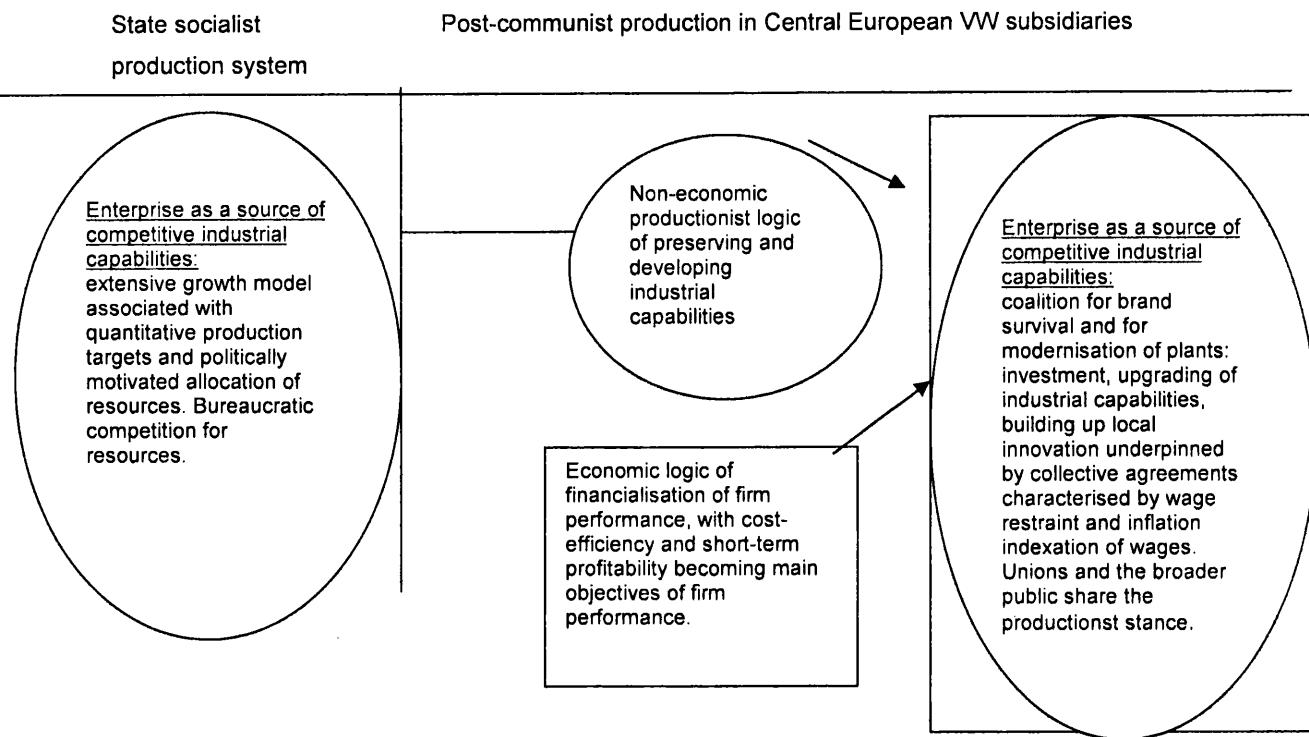
welfare provisions. The expectation of managers adopting the protector role can be seen as a normative societal re-embedding of increased managerial power: the company is expected to provide workers with wages and working conditions above the sectoral average. Thus, the enterprise continues to function as an authoritarian paternalist, although in a configuration different to state socialism.

VI. The enterprise as a source of competitive industrial capabilities

Chapter III described how state socialist enterprises could be characterised as sources of competitive industrial capabilities, as during state socialism, industrial capabilities were considered as strategic resources, even if the focus of administrative planners was rather on heavy industry than on consumer goods. The other dimension of the non-economic enterprise organising logic was the productionist attitude: employment stability based on the administratively set output targets was a key feature of state socialist production regime. A shift from state socialism to market economy in this context meant an adaptation of employment and production numbers to 'market demands' and the law of value. In market economies, the volatility in product demand can imply an increased flexibility of production and of employment levels which could endanger employment stability. Thus, with the introduction of a market economic rationale, state socialist non-economic enterprise institutions have been challenged by the new logic of market-driven efficiency and competitiveness. The combination of private ownership, pressures of international competition and the increased role of cost efficiency were expected to make economic competitiveness to the predominant measure of enterprise performance.

State withdrawal from the production process and the arrival of foreign owners were associated with a larger focus on profitability, the new desired field of managerial action. In other words, these reforms that were characterised by a strong instrumental rationality, the logic of consequence related to cost-efficiency and profitability. However, this Chapter argues that despite important institutional changes in the structure of markets and firm ownership, preserving industrial capabilities has remained an enterprise organising logic for local actors, a non-economic logic of appropriateness, an end in itself. Thus, an understanding of the enterprise as a social organism and a source of industrial capabilities remains alive. Despite the new institutions of increased competition, the expectation of enterprise commitment to its employees survived from state socialist era to the present day. This commitment is associated with what I call the 'productionist stance' of local actors. Embedded in the state socialist legacy, it is based on the desire to preserve employment numbers and to develop local industrial capabilities, even if it sometimes goes contrary to the pure logic of cost efficiency and short-term financial profitability.

Chart 6: Enterprise organising logics in VW subsidiaries: a source of competitive industrial capabilities



An important industrial upgrading took place during the late 1990-early 2000s in all four VW subsidiaries in production volumes but, most importantly, in production depth, product range and strategic positioning within the VW Group. In all four subsidiaries, the industrial upgrading was linked to a dramatic increase in employment volumes. To a certain extent this industrial upgrading and employment increase have been a part of the overall Group's strategy that largely depended on decisions about transnational distribution of production volumes and technology investments mainly made in the VW Group headquarters. Nevertheless, the Central European valuation of the industrial capabilities has been an important factor for industrial upgrading and employment growth. The industrial capabilities are valued as a final end, as a value in itself, rather than as a means to an end. Despite the new 'market' organising logic of greater efficiency, increased market competition and the law of value, local management has preserved a clear 'productionist' attitude in its desire to attract more investment to the production location, to ensure production over time and to upgrade. Again, these have been final goals, valued for their own sake. Thus, this 'productionist' organising logic that is rooted in the experience of state socialism is based on deontological ethics. Its overarching goal has been to build up, develop local capabilities and make companies to full-fledged partners within the VW Group. Both local unions and local management have shared this productionist attitude. Local managers were looking for German know-how to modernise their plant, but they still

perceived it as their main task to 'develop' the company. Thus, whenever the opportunity emerged, local managers, together with unions, showed through their actions that high employment and industrial upgrading remained their highest priority, while market efficiency rationale remained a secondary factor.

The rest of the Chapter elaborates this argument in more detail. Several dimensions of the non-economic productionist logic are discussed. In Section I, stakeholder attitudes and strategies of preserving the industrial capabilities at the time of privatisation are assessed. The role of local coalitions between government and unions as guarantors for brand survival in the case of Škoda is discussed. Section II disentangles the implicit productionist logic that underpinned the actions of the stakeholders, while Section III elaborates on formal agreements between management and union representatives that have been built on this implicit logic. The last Section underlines the role of the external dimension – the role of public opinion – in strengthening and reinforcing the local 'productionist' commitment to firm industrial capabilities.

This Chapter argues that the organising logic of economic liberalism of increased cost-efficiency and short-term financial performance affected the firms when the institutions of ownership and control changed. Yet the local organising logics according to which the firm is valued as a source of industrial capabilities remained alive. These organising logics imply a local commitment to the preservation of industrial capabilities independently from the pure market efficiency and the law of value. Thus, again, as in the previous Chapter, the organising logic of the law of value, related to economic liberalism, has been challenged by the other, non-economic enterprise logic that builds on state socialist legacies of non-economic enterprise logics. The result is the constant tension between the economic organising logic of cost-efficiency and short-term profitability, on the one hand, and the non-economic logic that values industrial capabilities, on the other. Thus, the firm still continues to function as a source of competitive industrial capabilities, although in the completely new institutional setting.

I. Stakeholder coalition for brand survival

As we discussed in Chapter III, the system of state socialist central planning was characterised by the fact that resource allocation took place through political decisions rather than being driven by the economic rationale of the price mechanism, resource scarcity and cost efficiency. With the regime change, direct political allocation of

productive resources disappeared and the economic rationale of the law of value officially entered the scene, either anew or less disturbed by ‘social intervention’ in countries such as Hungary where certain market reforms were already implemented earlier. In the company context, the new market rationale meant three things. First, the links to the Communist Party were dismantled. Second, politically-oriented setting of production volumes and prices stopped as production orders were left to ‘markets’ which meant that only orders from customers who were ready to pay in the hard currency at ‘market’ rather than at the subsidised rates would be taken. Finally, the state withdrew from the ownership structures by privatising the state-owned enterprises.

However, despite the new dominant logic of market efficiency that was established in the early years of post-communism, the company level reality was more complex. As with other enterprise organising logics discussed in Chapters V and VII, the new organising logic of economic liberalism formulated and defended by the new political elites did not penetrate the companies overnight and did not make the previously existing commitments towards the enterprise disappear completely. In an environment of high uncertainty, a medium- and long-term ‘market value’ of enterprises and their viability in the future were unclear, yet decisions still had to be made. The governments and other stakeholders such as managers and trade union leaders needed to decide which existing industrial projects were viable for the market economy environment. And it is in these decisions that the desire of stakeholders to preserve the existing industrial capabilities despite low short-term financial profitability can be identified.

At the first glance, the law of value entered the scene in a very prominent way: short-term financial viability of entrepreneurship became a crucial factor considered by stakeholders. In 1990, it was acknowledged by many that, economically, Škoda was not a viable company as it had large debts, declining sales and falling orders. Due to high debts, the company was unable to take out new loans that were urgently needed to pay day-to-day operations and the suppliers of components. There were voices among the Czechoslovak public that suggested abandoning car production in favour of automotive components for foreign car producers (Pavlínek 2008: 80). Also, the government, as company owner, did not want to take a high financial risk and the option of government-led restructuring of the company and its subsequent privatisation were ruled out due to the fact that neither the government nor the banks were ready to guarantee the capital needed, despite the fact that the domestic and foreign demand was estimated to be far above the production capacity

(Pavlínek 2008: 80). Thus, Škoda was a troubled company with its East European markets collapsing; its financial position was close to bankruptcy.

Yet market-oriented rationale has been restrained by a non-economic organising logic. Thus, already during the privatisation process, next to the law of value, a ‘productionist’ attitude of local stakeholders has become visible. Industrial traditions and industrial capabilities, rather than pure financial returns-oriented thinking, were important to local stakeholders. Due to its over 100-year-old history, Škoda’s reputation of a ‘family jewel’ was strong. It gave the stakeholders the legitimacy to demand a continuation of firm activities. A foreign partner that would enter in the joint venture was expected to invest into the company in order to improve quality and expand production volume (Pavlínek 2008). Thus, the solution of joint venture can in this light be seen as a compromise of the two logics – letting the ‘market forces’ in the form of a foreign investor enter the scene but, at the same time, ensuring the survival and preservation of already existing local industrial capabilities. Thus, Škoda’s example demonstrates that local stakeholders valued the company as a source of industrial capabilities and wanted to preserve those despite the low short-term financial profitability.

The dramatic financial situation of Škoda might even explain the eagerness of the Czechoslovak government to privatise such an important industrial project at such a fast pace. In other Visegrad countries, if important industrial projects existed, they were either privatised but remained in domestic ownership, as in the case of the Hungarian industrial giant Raba, or they were privatised much later, after prolonged negotiations and a search for the ‘right’ partner, as in the case of the Polish FSO. Thus, a comparison across national borders allows us to conclude that Škoda’s foreign privatisation in itself can be interpreted in this context as evidence of the ‘productionist’ logic, as marketisation through privatisation had as its final goal preserving of the company’s industrial capabilities.

Large-scale government-led restructuring plans and with them more advantageous valuations of companies were ruled out quite early in the three cases of brownfield investments that are analysed in this study in more depth: Czech Škoda, Polish Tarpan and Slovak BAZ. But it is in the case of Škoda that government demands went furthest. This is what makes us focus on Škoda’s privatisation in the rest of this Section. These demands went beyond general investment demands and covered among other things preservation of the Škoda brand. Yet why were these advanced ‘productionist’ demands for preserving

industrial capabilities formulated and followed in Škoda, but not in its former supplier Slovak BAZ or in Polish Tarpan? The explanation has to do with the power balance and a perceived more prominent role of the government in the negotiations for Škoda: the local stakeholders perceived to be in a stronger bargaining position when selling their ‘family jewel’. Focussing on the company’s medium-term industrial capabilities the stakeholders were confident that Škoda’s reputation and its position in international markets were good: a large share of Škoda cars were sold abroad and thus Škoda was considered by stakeholders to be able to pass ‘the test of markets’.

Yet also non-economic rationales have been important for Škoda’s stronger negotiating position. Its reputation was strengthened by the fact that Škoda was among the few East European car brands that had home-grown technological developments – many other state socialist car brands had to buy the technology in the West. The introduction of its last model in the late 1980s strongly contributed to a significant improvement of its previous international image of a low cost, low quality car: introduction of Favorit ‘narrowed the gap between Škoda and its Western competitors in the class of small passenger cars so that Škoda could offer a (potentially highly) competitive product’ (Pavlínek 2008: 75). Thus, privatising the ‘family jewel’ with long industrial traditions guaranteed a strategically strong position for the government to formulate high demands to the foreign investor. In other plants, the local stakeholders in and outside of the plant were perceived to be in a weak bargaining position in relation to the foreign investor: in Slovakian BAZ and Polish Tarpan the strategic importance of the plants was considered low. VW Group is argued to have found out about the BAZ supplier plant only during government negotiations concerning Škoda. As a manager in VW Slovakia explained: ‘we did not have Škoda’s hundred years of industrial history, this plant was relatively new’ (Wojnar Interview March 2007). Thus, it is only in Czech Škoda where local stakeholders such as management, but even more importantly trade unions and government, could have a strong influence on the privatisation process; in the two other brownfield locations and of course in the new greenfield Audi Györ plant the new foreign owner was dominant.

Two rationales dominated Škoda’s early partial privatisation. First, it was driven by the desire of local stakeholders – within the company as well as in the government – to preserve local industrial capabilities with the help of foreign investors in the short-term. Apart from having high debt, practically no long-term investment capital and thus no

chances of being able to compete in international markets Škoda even lacked financing to keep up day-to-day production (Pavlinek and Smith 1998). Sperling believes that:

[T]he government of Czechoslovakia [...] was of course interested in continuing the production activities of Škoda as a foundation for future economic development [...], although the Czechs involved knew too well that Škoda would not survive in the changing and more competitive markets without some form of co-operation with Western manufacturers (Sperling 2004: 184).

The situation of Škoda's suppliers was also critical given the following considerations: if Škoda went bankrupt, the suppliers would have to share its fate. Škoda at that time had 237 domestic suppliers and therefore its bankruptcy would have had a high impact on the regional economy (Pavlínek 2008: 80).

However, the time dimension is very important for the understanding of this privatisation strategy. Foreign investors were perceived by the public and by the government as a solution for company's short-term survival, but also as a guarantor of the long-term prosperity of the company and of the regional economy as a whole. Thus, these 'strategic privatisations', as they were called, were not only motivated by the short-term financial returns. Preserving the existing industrial capabilities – even if they were weak and not up to international competition at that moment – was considered crucial because preserving industrial traditions was a symbol of continuous economic development. It is in this context that foreign investors were considered as 'saviours' of local companies, as guarantors of long-term enterprise success.

The role of government was important as it could dictate the conditions of the joint venture. The preservation of the Škoda brand was a precondition for privatisation that was explicitly expressed in the privatisation negotiations together with other demands such as maintenance of the labour force, continuation of relations with local suppliers, continuation of R&D activities and Czech participation in company's management (Jung, Klemm et al. 2004). The choice of the foreign partner – the VW Group – was thus made dependent on the condition of preserving the industrial capabilities of the enterprise. The other foreign bidder for Škoda was Renault, yet this major French car manufacturer was not interested in preserving and developing Škoda's industrial capabilities: 'to opt for a co-operation with Volkswagen was the credible commitment of Volkswagen to keep Škoda as a brand manufacturer coupled with the promises of major modernisation' (Sperling 2004: 184).

The joint venture agreement signed between the VW Group and the Czech government in April 1991 explicitly stated the level of expected investment on the part of the German investor and the future production capacities. It also included clauses concerning Czech component producers and Škoda's employees (Pavlínek 2008). These numerous special clauses were developed by government officials and were one of the first expressions of government stakeholders before a more formalised process of privatisation was established. As Pavlínek (2008: 86) points out, it was only several months after drafting the Škoda joint venture agreement that the Czech Ministry for National Property Management formulated a directive that set out how privatisation projects should look like.

Joint venture plants were made by the government officials in cooperation with the management and trade unions, and not against their will. The role of Škoda's direct stakeholders - i.e. management and trade unions - in the privatisation decision was crucial. Local management supported the idea of a joint venture with a foreign company: 'as a leading industry in Czechoslovakia and based on past trade experience with Western partners, the Škoda management quickly realized that drastic measures needed to be taken if the company was to survive under the pressure of competition with Western auto producers' (Jung, Klemm et al. 2004: 206). The role of local unions was also crucial for the choice of the foreign partner. Despite the original preference of government officials and the broad public for Renault, Škoda unions persuaded the government to select VW as the preferred candidate (Pavlínek 2008). They voted against cooperation with Renault fearing downgrading and losing the status of an independent brand. Volkswagen's previous fair treatment of SEAT – keeping it as independent brand – gave Czech stakeholders more confidence that VW promises would be kept. Union representatives also supported the German bidder due to strong industrial relations in Germany (Sperling 2004: 185). Renault, on the other hand, 'was seen as a state company and hence not the appropriate partner for the privatisation process, in which the main challenge Škoda faced was overcoming the deficits created by the period as a state company' (Jung, Klemm et al. 2004: 207).

Preserving the labour force was a part of the joint venture agreement between the government and the VW Group. Despite a very large headcount, the majority of employees were taken over. The fact that high levels of employment – around 15,000 employees in the early 1990s – were preserved was a direct consequence of stakeholder demands. In the Slovak BAZ that then became VW Bratislava, on the other hand, the influence of local management and government backing were much weaker. As a consequence, a very

different employment strategy was chosen: all 'old' employees were laid off and had to go through re-hiring process. The company restarted with 400 employees in 1992 (Holccek Interview March 2007). While privatisation conditions from the government side were less far reaching, yet, still, these conditions contained requirements concerning a certain level of investments, an obligation to use the dividends for re-investment rather than for re-payment of shareholders, and a certain growth rate (Wojnar Interview March 2007).

As the VW Group experienced a crisis in 1993-1994 and announced a reduction in production numbers, lower level of investments and overall much more modest investment approach – so, for example, no new engine factory was going to be built in Škoda despite the original promise – the Czech government took an active stance to protect regional industrial capabilities. It requested an addendum to the existing joint venture agreement that would clearly stipulate the Group's continuous commitment towards Škoda. Although the investment levels stated in the document signed in November 1994 were more modest than in the original agreement of 1991, it was government's goal to have a formal commitment of the German investor to its Czech investment project. The state also gained the right to participate in 'all fundamental decisions regarding the joint venture and a veto power over any decision that would dramatically affect Škoda's activities until December 1999, when the VW Group was planning to buy the remaining shares of the company' (Pavlínek 2008: 90). The government also added an additional protection for the Czech suppliers in the agreement: once able to compete with other suppliers, local component suppliers had the right to supply the whole Group.

What could be demonstrated by the example of Škoda is a general pattern of several organising enterprise logics being at work; sometimes being in conflict with each other but sometimes supporting each other. The main demands to the foreign investor were related to the non-economic enterprise logics of brand preservation, employment guarantees and modernisation of the company, yet market organising logic has also been visible. It has been the means to reach the non-economic ends. Applying this economic logic and 'second guessing the markets' allowed Škoda stakeholders to take a much stronger stance vis-à-vis the foreign buyers during the joint venture negotiations.

The valuation of the enterprise as a social and industrial organism went against other sets of non-economic organising logics. For Czechs, such other non-economic logic was the strong anti-German sentiment related to the World War II. Thus, the transfer of Škoda's

ownership to the VW Group caused some controversies in the Czech public during the time of privatisation talks (Sperling 2004). But also on the German side, different organising logics co-existed. Even if the warnings about a potential cannibalisation of the main Volkswagen brand that focuses on good quality but more expensive family sedans by the re-emerging Škoda brand were expressed, non-economic organising logics have prevailed. The respect for industrial capabilities of Škoda engineering tradition has been stronger than the fear of cannibalisation of the main VW brand. Even today, when the evidence of certain cannibalisation of the German production is large, this issue is hardly discussed and, as Sperling argues, 'denied by the group itself or made to appear harmless' (Sperling 2004: 187).

This Section attempted to demonstrate how during the privatisation process, despite several economic and non-economic logics playing a role, the non-economic organising logic that conceptualised enterprise as a source of industrial capabilities has been crucial. Škoda's privatisation has been an example of local stakeholders - managers, trade unions and government officials - becoming a coalition for protection of local industrial capabilities

II. The new goal of cost efficiency reconsidered

During state socialism, company goals were expressed in units of production output. With the joint venture, these non-economic goals were supposed to be replaced by other, more market efficiency-oriented targets. But how has this change towards new company goals taken place and what have exactly become the new company performance goals?

Formal administratively set production output goals were replaced by cost efficiency and productivity goals. Financial targets and cost monitoring became a higher priority for local management that received responsibilities of 'profit centres' within the VW Group. The cost goals are set in cooperation with the headquarters and play a decisive role in companies' affairs. A finance director at VW Slovakia explained that the company has performance and profit goals and it is 'managed through these cost goals' (Wojnar Interview March 2007).

Financial and productivity targets became a higher priority. A new management based on accounting and financial indicators, known as controlling, was introduced after privatisation. A VASAS unionist who worked in a large Hungarian bus producer Ikarus during the time of its joint venture with a foreign Italian owner described the shift:

Before they came, of course, we had a meeting every week [as well]. But the information [exchanged] in the meeting has changed. Every week they showed us a report on company finances. We started to study anew all the aspects of the company [...]. This was a new style. Every director had to prepare a serious report of the activity of his department for the previous week. [...] There was a new requirement to show every detail, to justify the expenses. [...] It was more useful although more stressful. [...] Before, it was just an informal chat, something like: “What did you do last week?” – “Nothing interesting” (Mezei Interview September 2008).

Also, the internal cost benchmarking has become a norm. There are comparative data on production costs per hour across the Group and this data is communicated to all subsidiaries. Thus, even among ‘low cost’ production sites of Central Europe the headquarters try to build up competition. As a consequence, a greater attention is devoted to monitoring production costs. At Audi Györ, the works council leader stated that ‘We cannot go above 10 euro [per hour] if we want to remain competitive’ (Kelemen Interview August 2007). In addition to the continuous benchmarking, the tender system of the VW Group that is comparable with that in most other large automotive MNCs, requires subsidiaries to apply for new models and thus represents an additional pressure of cost-efficiency for companies. ‘The competition for new models within the Group is very, very strong. For each new model we need to apply. There are three criteria: quality, costs and flexibility’, stated the HR director in VW Slovakia (Holecek Interview March 2007).

Credit institutions impose further ‘hard budget constraints’. They lend money to the VW subsidiaries for investment projects. These loans can be taken without headquarters’ permission. Thus, normally, no inter-company credits take place, but loans are taken from private or semi-public banks. Thus, in case of VW Slovakia, these banks have been the European Bank of Reconstruction and Development (EBRD) and a number of private banks (Wojnar Interview March 2007). The manager was happy to announce that all debts of an enormous investment – 1.53 billion euro over 15 years – have been paid back by 2006 (Wojnar Interview March 2007). Furthermore, the modern auditing concepts common in market economies such as balance sheet structure and own capital ratios have become widely used (Wojnar Interview March 2007). Thus, the level of financial accountability but also of financial pressures substantially increased to make the previously existing soft budget constraints that I described in Chapter III disappear.

Productivity pressures that come from headquarters' benchmarking are a further dimension of the new organising logic of cost efficiency. Productivity increases are fixed every year, often they are set quite high. Fixing expected productivity increases at the level of inflation is justified by arguing that thus wage increases are covered by inflation increases, without jeopardising the financial stability of the company (Langenfelder Interview March 2007). The consequences of these pressures are a greater emphasis on optimisation and efficiency at work. A line manager from production unit explained:

Of course, productivity does not only depend on production process, but also on design and the nature of parts and construction. However, the part of production process and the assembly line is important. Fewer mistakes are made, fewer cars need to go into repair. [...] The Group's goal is 'first in' quote of 95%, at VW Slovakia this quote has been 90-95%, sometimes 80% (Langenfelder Interview March 2007).

In Škoda, there has been a clear change in the management narratives; they underline a new orientation 'towards achievement, quality and efficiency' (Jung, Klemm et al. 2004: 208). The narratives of constant improvement of work organisation have become widely spread. Thus, in Škoda, management introduced the 'Škoda production model'. The predecessor of it was 'fractal production organisation', a German inspired version of the lean production system, introduced in Škoda in 1994 with a new model Felicia. Apart from following the philosophy of continuous improvement, the idea behind the fractal – modular – organisation of production was to make the production process more transparent by improving information flows and more flexible by dividing production in modular groups (Pavlínek 2008: 95). In other VW subsidiaries, no 'extra' names were given but new practices of work organisation have been introduced in all plants since the mid-1990s. The idea of continuous improvement is known and is referred to. During the KVP Kaskaden, the 'continued improvement workshops', the team leaders from the assembly line come together with engineers and specialists from industrial engineering to propose things 'to make their work better'. Similarly, a production manager in VW Slovakia argued that 'there are always still reserves that can be optimised: material, reduction of work errors, maintenance, non ergonomic movements' (Langenfelder Interview March 2007). Just-in-time working practices are omnipresent: in many cases 'system suppliers' deliver their products directly to the assembly line. The manager at VW Slovakia referred to them as 'Just-in-sequence', an expression that implies an even faster turn-around, as delivery times are very low, usually two hours (Zeller Interview March 2007). Similarly, in Škoda, delivery times are two to three hours.

The consequences of this clear shift to a lean production-oriented work organisation have been an increased level of work effort required and increased pace of work. The director of the sport utility vehicle (SUV) production at VW Slovakia confirmed that 'turnover is high, qualified people are going away: work at the assembly line is hard, people prefer to work in a repair shop rather than on the assembly line' (Langenfelder Interview March 2007).

Yet the development of tougher productivity and cost efficiency benchmarks is subject to certain limits set by the productionist focus and by the commitment to local industrial capabilities that has been preserved in the Central European VW subsidiaries. Next to embracing the logic of ever higher productivity and cost efficiency, from the beginning of this joint venture, the non-economic organising logic has also been an important rationale for local management. At the core of managerial thinking are 'productionist' variables related to employment, industrial upgrading, and product quality as well as engineering and technical proficiency. They matter to stakeholders regardless of their cost-efficiency. Two phases can be distinguished in the evolution of the VW subsidiaries: the early 1990s to mid-1990s and the late 1990s to mid-2000s. During the second phase – from the late 1990s to early 2000s – the technological and organisational upgrading that is discussed in detail in Chapter IV took place. The following paragraphs elaborate how during both phases the role of 'productionist' logic remained important for local stakeholders.

During the first phase in the early 1990s, the process of adaptation was most intense. It is especially during the early period of special 'hardship' and restructuring where the objectives related to employment levels can be identified easily. During this early phase, the policies of employment pursued directly during and after the privatisation are telling. During the early 1990s when production numbers were low, employees were to a large extent kept on board in Škoda, at least the 'core workers'. In 1994, restructuring of production organisation meant that 800 Czech workers but much larger number of foreign workers lost their job. As already mentioned, among these foreign workers were 800 Cubans, 700 Poles and more than 1,500 Vietnamese (Pavlínek 2008: 97). Yet these large lay-offs have still been relatively small in relation to the overall headcount of 15,000 and 17,000 in the early 1990s. Thus, labour hoarding, even if of course at a much smaller scale in comparison to state socialist times, was still partially preserved. And also during the second phase, examples of temporary 'labour hoarding' still exist. Thus, at Audi Györ,

during the periods of model change when production volumes are low due to technical restructuring of the assembly line the company kept its employees on board.

The second phase of companies' developments is associated with industrial upgrading and thus with another type of 'productionist' enterprise organising logic. VW Group's internationalisation strategies in all four production locations intensified in terms of investment volumes, production and employment numbers that went together with industrial upgrading described in Chapter IV. For Central European managers, the importance of engineering and technical proficiency has been at the heart of this modernisation process. In Škoda, introduction of Octavia model in 1996 was described as a crucial moment despite the fact that the joint venture has been in place since 1991 and two early models - Felicia and Favorit - were already produced in cooperation with German headquarters. These two commonly developed models still had some elements of the original Škoda design and technology but local managers did not express any regret about them being replaced by Volkswagen technology (Nanasi Interview December 2006). The technical and engineering supremacy of German know-how definitely seems to have priority for local managers.

International comparative benchmarking techniques such as Harbour Report that compares data of productivity and efficiency are familiar to the production management, but when confronted with relatively 'bad' results for VW Group on financial and productivity figures from the Harbour Report, Škoda management did not see it as a big problem (Nanasi Interview December 2006). The director for industrial engineering explained that the low productivity figures of Central European VW subsidiaries can be explained by low levels of automation. Thus, the role of comparative benchmarks in labour costs also does not seem to be high. When costs are evoked, they are used to justify 'productionist' decisions such as keeping a high headcount. It is acknowledged that the share of labour costs in Central European automotive production is relatively low. In Škoda's case it is 20-30% of total production costs, which is significantly lower than the share for the VW Group as a whole which is at around 50%. It is argued that employing people is cheaper and more flexible than using machines. These would need to be replaced, while people can adapt. This fact allowed keeping a high headcount (Nanasi Interview December 2006). A similar argument has been developed by the HR director of VW Slovakia who argued that 'The sophisticated cars that we produce here demand a lot of manual work and manual work is cheap in Slovakia'. He also referred to the employment priority more explicitly:

One reason for low automation is that we wanted employment. [...] Ten years ago employment of people was priority number one. At that time, unemployment was very high in Slovakia - 20-30% (Holecek Interview March 2007).

A clear indicator of managerial 'productionist' attitude has been its desire of medium-term modernisation of the plants: the goal has been to attract more investment to the production location, to ensure production over time and to upgrade the facilities from low value added to high value added. The overarching goal has been to build up, develop local capabilities and move the company's position within the Group from the periphery to the centre. In Škoda, improvement in the quality of production has been described by insiders as one of the crucial reasons for success. The second reason stated has been the recognition of the plant as a mature partner within the VW Group (Vacek Interview December 2006). Thus, despite the growing importance of short-term cost efficiency pressures, the focus on technology and production quality remains. Responding to the question whether the financial side has become more important than the production side, the top finance manager at VW Slovakia, responded: 'No, I cannot say that this is the case. The production and quality still matter. The allocation of production resources could have been different' (Wojnar Interview March 2007). Thus, despite a shift towards the logic of cost efficiency, the financial parameters still have not completely replaced medium-term goals of production and employment parameters in managerial thinking.

A clear desire to build up local research capabilities has also been emphasised. Even if a big part of innovation know-how is imported from the headquarters, especially in the field of process innovation, the role of local managers is not negligible. Even if local decision makers are not fully autonomous, process innovation still takes place (Nanasi Interview December 2006). Thus, the director for industrial engineering at VW Slovakia was proud to report on the examples of process innovation that were introduced in his company. Thus, for example, the concept of 'supplier basket' was introduced in his plant to deal with variety and complexity of the cars constructed at the same assembly line.

Union representatives – together with management – also continue to share a strong 'productionist' identity. Like management, company unions see their goal in company advancement and prosperity. An example of union adherence to the 'productionist mode' is their emphasis on union function of assuring production quality and discipline. As already mentioned, especially since the early 2000s, a high turnover has been an increasingly

important issue in all plants. For example, in Audi Hungaria, labour force fluctuation has been 1% per month in 2000, while the goal has been 0.4%. In VW Slovakia, where turnover rates increased in mid-2000s from 7-9% to higher levels of 9-10% annually, they are still reported to be only half of turnover rates of other Slovak firms (Holecek Interview March 2007). Unions have started to capitalise on their function of assuring discipline during production process. A Hungarian union leader at Audi Györ stated referring to German management that: 'if they do not take our problems seriously then maybe the best solution for them is to go home because we cannot be efficient' (Kiss Interview August 2007). The HR director of VW Slovakia stated that 'unions are our eyes and years: what we don't see, they see' (Holecek Interview March 2007). Furthermore, a productionist part of union identity is also visible in the fact that unions also started to develop a discourse based on the valuation of skills and knowledge. Unions are directly involved in the issue of industrial upgrading. Thus, unions sometimes intervene directly and express their opinions concerning upgrading. Thus, in 2002 in Škoda, as employees perceived the danger of degradation of the product profile, a short protest action organised by trade unions was staged (Sperling 2004: 191).

The productionist attitude of Central European stakeholders has been further reinforced by the highly 'productionist' approach of VW Group in Germany. A productionist approach on the German side meant that core-periphery division between the headquarters and subsidiaries was not permanent. The original investment decisions were driven by the desire to build up low-cost production locations and access new markets; the upgrading of the new subsidiaries to the state-of-the-art production locations was not the original intention of the VW Group headquarters. 'At the beginning, three halls were constructed here. Now, the whole area is full of buildings. At that time, no one could imagine that VW Slovakia would become such a huge factory', emphasised the human resources manager (Holecek Interview March 2007). It was subsidiaries' initiatives to use the window of opportunity whenever it emerged to upgrade their plants. A productionist organising logic of technical and craft proficiency that has also been a feature of the VW Group headquarters was the underlying factor in industrial upgrading of subsidiaries: when Central European subsidiaries proved that they were capable to produce highly sophisticated products, their upgrading was launched. The human resources director of VW Slovakia made this argument clear at the example of his plant:

Originally the plan for this plant was to produce Passat. Yet in 1994, we were offered an opportunity to produce a four-wheel 'Golf for motion'. And it is in this project that we showed that we were capable of producing these most sophisticated cars. And this was the starting point. But this was a coincidence, not a strategic decision. The headquarters were looking for a cheap production location, they realised that in Bratislava there was an empty capacity, so they decided to give it a try. [...] It was only in 2000 that the strategic decision to produce the SUVs in VW Slovakia was made. [...] And one of the reasons for this was that earlier we showed ourselves capable of producing these sophisticated cars [...], in the excellent quality (Holecek Interview March 2007).

Thus, a high level of openness about the future upgrading in the VW Group headquarters has been an important factor supporting the productionist attitude and the preservation of the local non-economic enterprise organising logic. The local stakeholders were the driving forces behind the upgrading, yet this crucial role of local management has been possible due to the specific control mode and commitment mode of the German MNC. More generally, Bluhm (2007) argues that the arm's length control mode of the German MNC headquarters allows certain opportunity structures to emerge. When these opportunities emerged, they were capitalised upon by local management to strategically enlarge the mandate of its subsidiary within the Group.

Furthermore, VW Group has not used any 'back door' strategy to achieve compliance with new managerial goals but followed a route that took into consideration the previous experience of old managerial staff. Replacement of managerial staff by new people with experience of working in market economies could have been a strategy of the headquarters. However, this happened only to a limited extent. Only top management was replaced by the German expatriates, while the large share of local middle and line management was kept. (Holecek Interview December 2006). The role of expatriates has been relatively limited in the medium term. Apart from Škoda's experimental three year tandem program that has attracted a large number of German managers to the subsidiary, the usual trend in all subsidiaries is that only the top management team is dominated by expatriates while the human resource manager is usually a local person. VW Bratislava and Škoda have several top local managers; Audi Györ has had the smallest number so far with only one local top manager - responsible for human resources.

Another reason for the 'productionist attitude' is the technical-engineering background that is dominant among local managers, rather than an orientation towards pure financial accountability and profit maximization. Training background of managers in engineering

facilitates their technical-engineering orientation. This is how Škoda senior manager for industrial engineering describes his reasons to come to Škoda:

I've studied mechanical engineering. [...] During my studies, in 1994, I was a trainee in the Audi plant. This is where I saw the first models of the new Octavia. And this is the point when I became fascinated by it. I told myself: 'If we had this car in production at Škoda, this would be unbelievable'. Then, some time later, I saw this car on the street for the first time and this is when my decision was made – I wanted to go work for Škoda, because the cars that they produce there are amazing (Nanasi Interview December 2006).

The manager further reports that what was crucial in the new model was the new level of quality compared to previous models. Thus, engineering and technical excellence rather than pure financial parameters are the defining features of managerial thinking.

Internal career progression is another factor that facilitates the preservation of productionist focus. Internal labour advancement has remained important and many of senior managers started as simple blue-collar workers. The director of motor production at Škoda was one of them. He has been working in the factory for 20 years. Originally, he was a welder, and then moved in the planning and preparing new models as a technical specialist before becoming the director of the engine plant (Vacek Interview December 2006). Similarly, the director of the SUV production at VW Slovakia was also previously a blue-collar worker (Langenfelder Interview March 2007).

To sum up, the introduction of certain benchmarking and financial accountability tools in the Central European VW subsidiaries allowed the economic enterprise organising logic to emerge. At the same time, the headquarters' lenient approach to managerial staff as well as training background and internal career ladder allowed a part of the old productionist attitudes to persist. The next Section shows the role of local production coalitions between management and unions in translating this productionist enterprise organising logic into industrial upgrading.

III. Collective agreements as production coalitions

As the previous Section demonstrated, local management in VW subsidiaries has had a clear 'productionist' attitude in its desire to attract investment, to ensure production over time and to upgrade. The industrial upgrading that has been discussed in Chapter IV has been a unique phenomenon due to its speed and scale. To convince the headquarters,

management had to rely on the support of key stakeholders such as local trade unions. As a consequence, to achieve the goal of plant modernisation and upgrading, local management in VW subsidiaries chose to treat trade unions as partners²⁰ in issues where unions have legal co-decision rights. Unions have thus become important in the industrial upgrading process of VW subsidiaries. Chapter V argued that unions' protective function in relation to wages and working conditions has remained very low. This Chapter brings out the other part of union identity that remains dominant: between union functions – production and protection – union identity remains strongly 'productionist'. In this argument, the last Section tried to disentangle the rationale behind union productionist attitudes. I argued that also on the union side, preserving and developing industrial capabilities was a core goal. This Section, in turn, discusses formal collective agreements as examples of the management-union coalitions for upgrading.

In the German VW plants, as in most other German automotive producers, company level management-labour production coalitions have become quite wide-spread in the 1990s. In Germany, the goal of these coalitions was to 'minimise the costs' of the economic downturn or of the increased international competition. Also in Central European VW production sites, collective agreements have been used in some cases for similar purposes. Thus, in 2005, in VW Slovakia, due to reduced demand, management sought an arrangement with unions which was found by reducing the number of hours worked. The trade-off agreement was reached between management and unions mainly by increasing the pay. Thus, management used cooperation with unions in cases of strong demand decreases although these cases were rather exceptional. Yet the main purpose of local production coalitions in Central Europe has been different in comparison to Germany. In Central European VW subsidiaries, company collective agreements have been the major examples of enterprise 'production coalitions' for upgrading and industrial modernisation. In this way, the common goal of building up of industrial capabilities was achieved: collectively agreed additional, although limited, bonuses and pay benefits for the core labour force are traded-off against more working time flexibility at continuously overall relatively low wages. Working time flexibility includes the variety of shift systems and overtime arrangements. A more flexible use of these arrangements allowed a more intensive use of machines and other productive investment making Central European subsidiaries highly competitive production locations within the VW Group.

20 Some other automotive MNCs in the region such as Suzuki Hungary or Kia in Slovak Republic still do not recognise unions on their premises or build adversarial relationship with them.

Local management was the main driver in the industrial modernisation process, while unions were the facilitators. Collective agreements cover the issues of overtime, shift organisation and time accounts. Working time and work organisation are two crucial fields, in addition to wages, where unions have had legal rights to be consulted and be taken into account. The case of Audi Györ is the clearest example of the union-management cooperation for upgrading. The cooperation only materialised once management saw an advantage in concluding the agreement, as already discussed in Chapter V. It has been looking for a 'win-win situation' before engaging in a serious collective bargaining. Thus, collective negotiations took place for six years without an agreement and only in 2001, when the Hungarian employment law was amended, introducing more possibilities for negotiating working time flexibility, management became serious about collective bargaining and the first deal was struck. The manager explained how introduction of this time flexibility was fostered by changes in labour law that made such an agreement with unions possible and how this allowed the company to save costs:

Before we had to pay overtime, once we had the collective agreement, a longer working time periods could be used. [...] This was the most important reason for us [management] to have this collective agreement (Radi Interview August 2007).

What these collective agreements also allow is a very high level of working time flexibility and thus a better use of machines and productive investment. The Audi HR manager stated that 'there are 70 working time models here. It has been very important for our company to be able to be flexible, to play around with working time' (Radi Interview August 2007). Yet also in other subsidiaries the collective agreements have been used by management more intensively since the late 1990s-early 2000s to achieve the necessary flexibility in working time, shift structure, etc. Thus, also in Škoda and in VW Slovakia, management used collective agreements as a flexibility tool. HR director at VW Slovakia presented 'enormous flexibility' as one of the key reasons for the success of VW Slovakia:

I don't know if there is another firm in the Group that has such high level of flexibility. [...] The workers work normal number of hours, but they also work Saturdays and Sundays (Holecek Interview March 2007).

The shift system has been changed from a three-shift to a four-shift arrangement, and later to a continuous shift system. The latter allows a more intensive use of machines and people. This 'flexibility' that is praised by management has been possible due to company level

collective agreements between management and trade unions. According to the labour law and collective agreements, in Škoda, most working time flexibility measures need to be agreed with unions. Thus, to introduce new working time systems for the period of one year, agreement with trade unions is required. Also working time systems that extend working week to the weekend are agreed with trade unions two months in advance (Škoda 2005: 18-20). Similarly, in VW Slovakia, all important changes in shift systems are agreed with unions. The collective agreements create a limit of weekly and annual over-time thus effectively allowing for working time accounts²¹.

Also in VW Slovakia, the ‘extreme flexibility’ of the labour force is presented as a crucial ingredient for the upgrading success. The management used agreements with unions to achieve a level of very high shift flexibility. A three-shift system was first tested since 1996 and was fully introduced in 1998. In this system, the weekends were free but employees could be asked to come to work if necessary. In March 2007, the system was ‘flexibilised’ further as the three-shift system was replaced by a ‘continuous shift²²’ system with four shifts a day. In this system, people work for seven days and then have two-three days free. It allows the plant to utilise the equipment and the labour to its extreme: ‘flexibility is one of the main factors that explain the success of our plant. [...] we are able to do with our employees everything we need’, explained the director for human resources in VW Slovakia (Holecek Interview March 2007). The cooperation with unions was assured even if after an early stage of conflict: ‘When we first introduced this working time flexibility, we met with resistance from the labour force i.e. the unions’ (Holecek Interview March 2007), the manager reported.

In addition to flexible shift systems, most collective agreements also cover additional agreements between management and unions concerning maximum allowed overtime. Thus, for example, while the labour code allows 200 hours overtime per year, the company collective agreement in Audi Györ made it possible to increase this level to up to 300 hours overtime per year (Kiss, Nemeth Interview August 2007). Also, in VW Slovakia, the collective agreement allows over-time to go above the national legislation maximum of annual overtime. Similarly, in Škoda, the over-time work is regulated by collective agreements: it sets an average maximum number of overtime per week and establishes a yearly account for the calculation of overtime (Škoda 2005).

²¹ The overtime is first put on the time account and paid three months later
²² Not for workers on the assembly line

The second pillar of these production coalitions in form of collective agreements has been important wage moderation. Unions share management's new economic rationale of strong pressures of international competition. As already discussed in Chapter V, during most of the 1990s and early 2000s, limited real wage increases have been a substantial part of these enterprise production pacts. Wage restraint and inflation indexation remain the norm, as it is seen by both local management and local unions as the safest option to secure additional foreign investment inflows – unions and management both admit that they do not want to lose out in international competition and would like to preserve their low-cost location advantage. Thus, the HR director at VW Slovakia states: 'The main reference point for us in wage increases have been the inflation rates. This year because of tight labour markets we decided to implement the planned wage increase earlier than planned because for such sophisticated products we need the best people. But we do need to fit within the VW brand, we should not go far beyond, otherwise we won't be competitive within the brand' (Holecek Interview March 2007).

The tension between wage increases and competitiveness is especially strong for metalworking industry as it is hugely internationalised. Trade unions have been very sensitive as far as the competitive positions of their countries were concerned. As already mentioned in Chapter V, rather than following the advice of the European Metalworker Federation that since 1998 has been formulating guidelines insisting that wage bargaining should cover at least a part of labour productivity increases, metalworker unions in Central Europe have not seriously made participation in labour productivity a part of their bargaining agenda. Their bargaining demands as well as achieved outcomes have been much closer focussing on covering inflation. Union official confirmed that it was important to preserve the wage gap to Germany as this has been their comparative advantage: thus, Czech and Slovak wages are still at about one third of German wages, while productivity differences are substantial but smaller (Jankovič Interview August 2007). This explicit union goal of preserving wage gap to the German wages despite very high productivity increases is a clear sign of competitiveness logic that unions now share with local management.

To sum up, during the late 1990s-early 2000s the local management-labour coalitions have become stronger in VW subsidiaries. High functional flexibility and low wage increases have been the two central pillars of these enterprise production coalitions. These were

traded by unions for company expansion and product and production upgrading. These collective agreements represent ‘local pacts for production’: their intensification went together with industrial upgrading that took place since the late 1990s-early 2000s. Management-union cooperation has thus been crucial for upgrading: it is the intensified exchange between labour and management since the late 1990s that contributed to the success of industrial upgrading in Eastern VW subsidiaries. Collective agreements have been examples of ‘productionist’ attitudes shared by local management and trade unions. The productionist legacy of state socialist era has thus been preserved even if in a very different institutional form.

IV. Industrial capabilities as an issue of public concern

Chapter III explained how during state socialism public ownership of enterprises was not a financial ownership as profits could not be re-invested. It was rather ownership that represented a control of productive resource allocation. As abundance of productive resources was mostly linked to high employment figures and all related social provisions, large industrial projects were also high prestige projects. Thus, although in state socialism there was no free public media or free civil society and thus no role for public to express its opinion about industrial policies or similar, large industrial projects still enjoyed high status and prestige. Furthermore, even if the decisions concerning industrial priorities might have served more the particularistic interests of the Communist Party officials rather than the broad goals of economic development, the official version of events presented company affairs as an issue of public concern. This Section shows how to a certain extent this rationale of industrial capabilities being an issue of public concern has been preserved from state socialist period to the current day. What has survived is the idea that enterprise is not just an issue between employees and management of a particular enterprise, but an issue of public interest. In other words, public concern has been a further stakeholder in the industrial upgrading process that pushed the decision makers to preserve local industrial capabilities. Central European VW subsidiaries are a useful case for assessing the role of public opinion as these companies have enjoyed high coverage in the national media and high public interest due to the size of these industrial projects, early arrival of the foreign investor to the region and the strategic role of the automotive industry in the region in general.

The role of public opinion in the restructuring and privatisation of former state-owned automotive companies cannot be underestimated. Already during the privatisation process,

public opinion de-radicalised the intentions of the Czech government to sell Škoda off completely:

The fear of the public that the German investor would completely restructure the factory and implement purely German means of production and employment led the Czech government to agree with VW on a form of a Joint Venture, where government's share gradually decreased [...] (Mikulikova 2002: 46).

The role of public opinion also mattered for management training. Public opinion meant that the old management structures that were partially considered as obsolete could not be completely ignored. Thus, Mikulikova (2002) interprets introduction of management tandems at Škoda as a consequence of public pressures. Blazejewski, Claasen et al. (2003) report a case of a less known large Polish company where after privatisation the managerial structures were completely circumvented by the new German managers as the latter felt that it would be too cumbersome to retrain the Polish old-school managers. A high media exposure and media attention to the VW subsidiaries prevented this from happening in the VW subsidiaries.

The logic of enterprise and industrial capabilities being an issue of public concern was explicitly expressed by company insiders as well as by stakeholders in the automotive sector. Thus, in Audi Györ, the union leader underlined the role of 'public ownership': 'On paper this company is the property of Audi but in our heads it is our property because this company is based in Hungary' (Kiss Interview August 2007). The linkage between company affairs and regional/ national economic development has also been clearly identified. The HR director at VW Slovakia elaborated on his company's involvement in improving the deteriorating national industrial capabilities of vocational training:

Before, we had a complete dual system of vocational training. [With the regime change] the first thing that enterprises did when they were about to privatise was to give these schools back to the state. [...] Today, these schools do not train properly for vocational training. [...] No one thought that vocational training would take such a turn, and you know, now it will take a long time – I would say 10 years – to make the system work again. You know, it is much easier to destroy something than to build it up. [...] The government needs to take the lead here to improve the system of vocational training. [...] We cooperate with Kia and PSA in these issues, even if we are competitors. On issues of labour markets we are partners [...] and we agree on a common position about what government activities we need. We need to convince the government to cooperate on that. We are developing a pilot project that should advance Slovakia (Holecek Interview March 2007).

Thus, company stakeholders see company affairs and general interest of national industrial capabilities as closely interlinked.

Across the board, representatives of employer federations, trade unions and national chambers of commerce and industry referred to the importance of strong local manufacturing traditions as relevant for society as a whole rather than only as an enterprise relevant issue. The embeddedness of engineering and manufacturing capabilities in the local history and economy is explicitly stated by practitioners. Thus, in Hungary, the legacies of state socialist industrial development are evoked as crucial despite the fact that it did not have automotive final producers after the World War II. Yet it is argued, it had strong manufacturing capabilities in bus production, engines and other components (Bogdanovits Interview July 2008). Similarly in Slovakia, the representative of the Chamber of commerce said:

You cannot create industrial history on this table. You cannot do that. Either it exists or it does not. Czechoslovakia in the past had a tradition of machinery industry [...]. It is not possible just to say: 'it is good to make electronics, let's start producing electronics now (Pal'a Interview March 2007).

The importance of historical heritage of machine tools production in the emergence of a strong automotive industry today has been evoked by the stakeholders. It has been pointed out that Audi Györ is located in the area of the traditional Hungarian engine producer Raba. In Slovakia, the region of Martin has been a stronghold of arms production (Neumann Interview March 2008).

The destiny of enterprises and industry is closely linked to broader societal changes. Industrial modernisation of enterprises and country's modernisation are often seen as interdependent. Thus, the representative of the Slovak chamber of commerce stated:

[After Slovakia's independence], we did not have a big choice; we were happy if anyone came to us. There was no much choice: it was a new country, new Slovakia, new currency, new government, and new problems. You know how it is: political ups and downs. This is like when you go to eat: when you are hungry, you eat anything, but once you are half full, you will choose the better things – it is normal. And it is also like this in business (Pal'a Interview March 2007).

Making business is also associated with a long-term sustainability rather than with short-term windfall gains. Stakeholders differentiated between good and bad investment. 'Bad'

investments are associated with speculation, while 'good' investments are associated with 'productive investment' that would develop the company's capabilities:

The entrepreneurs of the first wave, they are the so called 'gold diggers'. Everybody wanted to own a company, but they were not ready to spend their own lives in it; neither to wake up at 6 am, nor to take care of hundreds of employees, nor to take care of the sub-suppliers, nor pay attention if exports are working fine, if the [Slovak] crown is up or down. Buy cheap, sell expensive. Buy a Lamborghini; go on holidays in the Caribbean. This was the first privatisation. They did not know much about the industry. Their way of thinking was: 'certainly one day someone will come who will want to buy it from me and it is my aim to sell it then'. So, it was all around the speculation motive. [...] After a few years, now it-is clearer - the best way was when the management made a buy-out. It could be a factory producing colours, painting. They would say: we have been working here for 20 years, we know the company well, we shall decide about its future, we continue to develop it. This was a positive privatisation (Pal'a Interview March 2007).

Investors are thus clearly differentiated between those with productionst attitudes and the rest. There are those who are interested in investing and developing the company and others who acquire companies for other reasons: speculation or reducing the competition. Thus, 'real' businesses are seen as long-term preservers of industrial capabilities. While VW subsidiaries are considered as successful cases of preserving and developing local industrial capabilities, the stakeholders quoted a large number of unsuccessful privatisations where industrial capabilities were destroyed. One such case is the foreign privatisation of a previously internationally renowned Hungarian bus producer Ikarus. Ikarus, one of the biggest Hungarian bus producers of the state socialist era, was bought by an Italian bus producer Iveco in 1999. Its two plants were closed down in 2003 and 2007. A trade union leader wondered: 'What was the point for Iveco to buy Ikarus, what was the interest [of the foreign investor]: to buy a competitor or to buy a plant with capacity?' (Mezei Interview September 2008). The implicit argument behind this question is that the Italian bus producer bought its Hungarian competitor to reduce competition in the market and not to develop regional industrial capabilities – something the trade union leader would have expected as it would have been conform to the 'productionist logic'.

Conclusion

This Chapter demonstrated that the enterprise organising logic of competitive industrial capabilities has re-emerged in the Central European VW subsidiaries. Despite dramatic changes in the institutions of firm performance associated with cost efficiency and short-term financial profitability, crucial for the international product market competition, the

local commitment to industrial capabilities that existed in state socialist times has at least partially been preserved. The increased financialisation of firm performance and the new cost-efficiency logic did not completely replace the non-economic old productionist enterprise organising logic of appropriateness. Company collective agreements have been good examples of coalitions of stakeholders with a productionist organising logic aiming at upgrading of company's industrial capabilities and advancement within the Group. In addition, the commitment to industrial capabilities has been propagated also outside the firm: enterprise development and industrial upgrading are considered as an issue of public concern. Preserving and developing local and national industrial capabilities has thus been another non-economic, deontological organising logic, an end in itself, for stakeholders inside and outside the company. Thus, the societal re-embedding of institutional consequences of economic liberalism has been non-negligible. It now contributes to enterprises functioning as sources of competitive industrial capabilities, combining elements of both economic and non-economic enterprise organising logics.

VII. The enterprise as a discretionary bureaucracy

The third enterprise area of studying the interaction of the economic and non-economic organising logics is the work and skill organisation. The goal of this Chapter is to demonstrate that also in the field of work organisation and skills, the expansion of the organising logic associated with economic liberalism is somewhat counterbalanced by a societal re-embedding driven by non-economic organising logic. The combination of these two logics contributes to the emergence of enterprise being a discretionary bureaucracy.

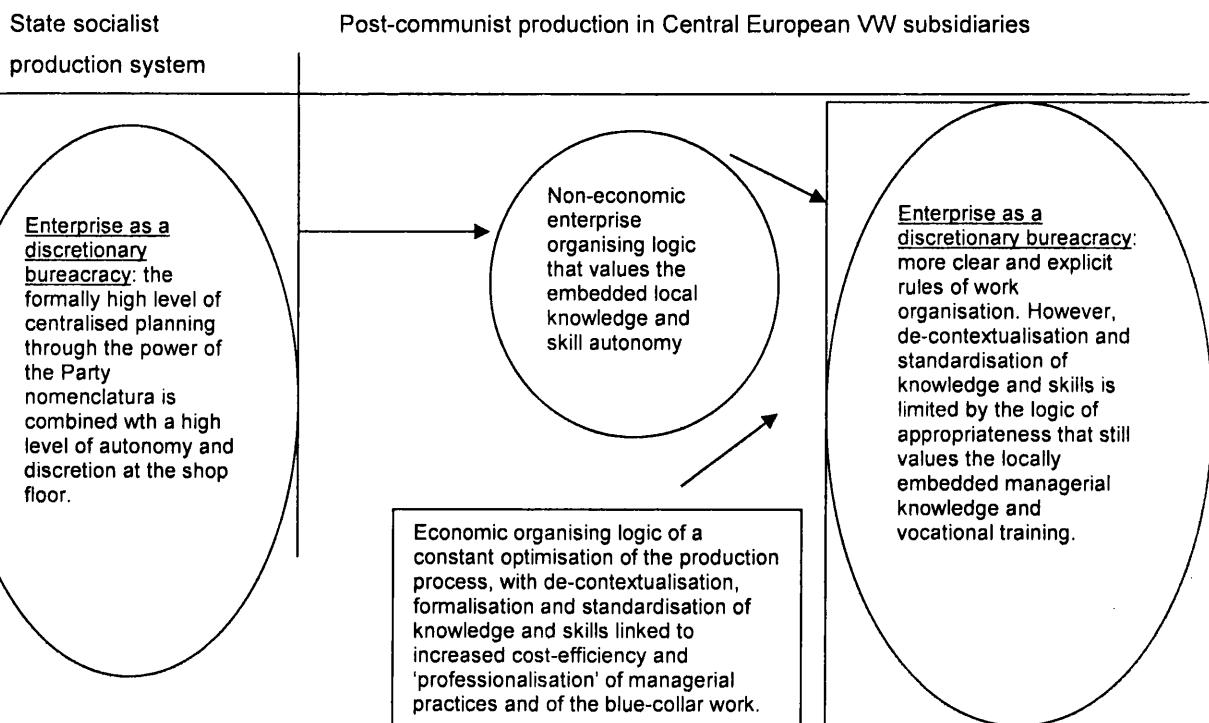
Chapter III discussed how discretionary bureaucracy was one of the non-economic enterprise organising logics during the state socialist period. It was based on a high level of autonomy and discretion and was linked to intellectual, negotiating and social skills of managerial staff and intellectual and technical skills of the shop floor staff. Economic liberalism brought an important institutional change in the field of work organisation and skills for both managers and blue collar workers. This Chapter describes how for both groups this institutional change meant a de-contextualisation and standardisation of knowledge and skills: for managers, this process has been associated with a 'professionalisation' of managerial practices and standardisation of managerial knowledge through special training courses and new work practices; for blue-collar workers, these institutional changes have been associated with lean production practices and a higher work standardisation. The institutional changes linked to economic liberalism such as the formalisation of rules, a certain de-contextualisation of local knowledge and the standardisation of work organisation contributed to strengthening of the hierarchical structures of managerial authority in the firm and thus were expressions of the logic of consequence and the instrumental rationality linked to the law of value and cost-efficiency.

The reader might refer to Coase who pointed out that companies are distinct from markets because the exchange based on price mechanism is replaced within the firm by vertical integration (Coase 1937). However, the variable that matters for this study is the underlying organising logic: both activities within the firm and outside of the firm can follow an organising logic of the law of value and of cost-efficiency, on the one hand, or a non-economic logic, on the other. In this case study, restructuring measures of professionalisation and standardisation of managerial and blue-collar work had a clear instrumental goal of greater cost-efficiency. Thus, this type of institutional change within

the enterprise was an expression of the expanding economic liberalism. In the post-communist context, standardisation and de-contextualisation of skills, professionalisation, formalisation and standardisation of work practices driven by economic liberalism represent to a large extent the expansion of the utilitarian logic of catching up with 'best practice', the means to a higher productivity and profitability, not an end in itself. Local stakeholders had not experienced these practices before and thus could not have developed deontological values or 'logics of appropriateness' related to them (March and Olsen 1989).

As elaborated in Chapter III, state socialist firms were characterised by the formal centralised power of the Party nomenklatura, on the one hand, and by informal chaos and high work autonomy of the workforce, on the other. To a certain extent, workers were left to their own devices in, what some described as a state socialist 'fake bureaucracy'. Reforms of work organisation associated with the introduction of clear and explicit rules and regulations met with the approval of local stakeholders, even if these reforms also meant establishing a stronger hierarchy of managerial authority.

Chart 7: Enterprise organising logics in VW subsidiaries: the discretionary bureaucracy



However, as a reaction to the expansion of the new economic organising logic, certain deontological organising logics intervened into this de-contextualisation of skills and

standardisation of work processes by underlining the importance of non-economic organising logic that values the locally embedded knowledge of managers and of the blue-collar workers. Thus, standardisation of production has not been unlimited: some re-embedding of work organisation practices took place because stakeholders adhered to the organising logic of skill autonomy. According to this non-economic enterprise organising logic, an enterprise functions as a discretionary bureaucracy based on the locally embedded management and skill autonomy. This non-economic enterprise organising logic represented a form of societal re-embedding which prevented a full de-contextualisation and standardisation of local knowledge and skills.

As discussed in Chapter III, although planning was the state socialist answer to the price mechanism, the administrative planning machine of production was associated with a high level of unpredictability and discretion. There were two different but interrelated dimensions of discretion: the political discretion of Party intervention and the daily discretion on the shop floor. The ‘political’ discretion of the state planning system took the form of direct state intervention in production tasks. The key decisions concerning company strategy, production levels and investments were not made within the companies but by Party officials thus making decisions unpredictable for the company stakeholders. Pavlinek describes the discretionary role of state bureaucracy in running the companies:

Škoda’s development was determined by state planning machinery. [...] [After nationalisation,] Škoda lost its independence in such crucial decision-making areas such as what and how many types of cars it would produce, how often they would be modernized, how much and when it would invest in its production, and where and for how much it would buy the components for its assembly operations (Pavlínek 2008: 67).

The dependence of production process on the moods and power struggles in the Communist Party made the system highly discretionary and difficult to predict. It is out of this rationale that the desire for a more professional, apolitical management style emerged among company stakeholders. The desire for a withdrawal of the discretionary influence of the Communist Party nomenklatura was strong and was visible already during the privatisation process. At Škoda, one of the reasons for selection of VW rather than Renault was the view that emerged during the negotiations that VW was a more serious partner, as Renault was partially state run and had strong Communist trade unions. State ownership of the company and Communist trade unions were associated for the Czech side with political dominance and discretion. Thus, Renault’s offer was rejected for the fear of the political interference.

The political discretion linked to the Communist Party nomenklatura was overcome relatively quickly during the early transition. Already in the first year of transition, Communist Party control over the production process collapsed. Private ownership, especially in the form of a foreign investor further cemented the impossibility of return to a direct intervention by political authorities and ruled out the discretion associated with them. However, despite this strong institutional shift in ownership and control, another type of discretion characteristic of state socialist systems remained intact – namely, the highly discretionary behaviour of ordinary workers and line managers that was partially a consequence of the political discretion of state socialist era. In the state socialist production system, in the trade-off between rule-bound and discretionary behaviour, ordinary workers and line managers had an overwhelmingly high level of discretion. Despite the fact that formal organising logics and regulations existed, discretionary decisions were omnipresent. Labour and supply shortages, labour hoarding and unexpected changes in production volumes gave a lot of autonomy to shop floor workers and middle managers. This is why centrally planned economies have been described as an anarchical production process (Burawoy 1985). Because of the unpredictability of the production process the top managerial control of the shop floor was low. Formal rules and regulations were circumvented, giving middle and line management greater scope for action: it could reward and punish with a high level of discretion. Chapter III demonstrated this argument for various fields of work such as rewards, social benefits, and production targets. With the introduction of the new work organisation conceptualised around constant optimisation of production processes, Central European work organisation moved away from implicit, informal and discretionary work standards towards larger role of formal, explicit and only to a limited extent negotiable work rules.

Taking into account the very high level of discretion that dominated the state socialist production systems helps understand why local stakeholders desired a more formalised and rule-bound organisation of work. The high degree of explicitness of organising logics and standards in relation to work organisation was referred to as ‘professionalism’. Professional work organisation was thus associated with reduction of discretion. With the regime change, new explicit targets in work organisation were introduced and work organisation shifted towards more explicit and standardised rules. The resistance to it was low as less discretion was considered as more professional in the eyes of the local labour force. The desire to overcome the previous system of ‘anarchy’ and high discretion was so large that

most reforms of work organisation which were associated with the old production system and political intervention were first rejected by the labour force. Thus, certain work organisation practices usually associated with greater work autonomy and job control such as introduction of teams were first rejected. Teams were initially rejected as they resembled closely state socialist 'work brigades'. Similarly, various motivation and continuous improvement slogans were rejected as they resembled those of 'socialist competition' (Dörr and Kessel 1995: 13). Thus, certain practices were rejected on the grounds of not being 'really new' and resembling too much features associated with the state socialist era. Nevertheless, as will be seen, other forms of discretion turned out to be highly valued by local actors, who were able to preserve them despite the strong institutional change in work organisation.

The Chapter is structured as follows. Section I deals with 'professionalisation' of managerial skills and its limitations, while Sections II and III discuss the evolution of blue-collar work practices and skills. Section I shows how for managerial skills, the shift to a greater rule-bound behaviour based on financial and administrative targets has been counter-balanced by the emphasis on local expertise and local discretion. Section II elaborates on the shift in work practices related to greater optimisation on the shop floor. Section III, on the other hand, shows that despite this shift in practices a certain level of discretion was preserved with technical skills being at the core of this new formally granted discretion. The enterprise organisation as 'discretionary bureaucracy' based on skill autonomy has thus been preserved, even if in a new institutional form.

I. Managerial skills: professionalisation and local knowledge

High levels of discretion and chaos dominated the state socialist work and production system. Labour and material shortages meant that the rhythm of production was highly uneven and demanded a high degree of expertise and coordination skills from the line management. Often this expertise was not available, leaving line managers and workers to themselves to sort out problems of supply shortages or of high absenteeism. Such a system inevitably led to a rejection of any local managerial knowledge by the local stakeholders during the early years of regime change as they associated it with inefficiency and discretion. Especially during the early stages of transition, managerial skills in state

socialist enterprises were considered as obsolete and needing overhaul. Local stakeholders – management and unions – welcomed VW led training practices for managers.

The implicitness of local managerial knowledge and local technical skills has been so high that local stakeholders were often not aware of it. Only after a certain period of time and partially due to unsuccessful attempts of a direct transfer of practices that met with local resistance, a more differentiated approach emerged. The new approach emphasised the view that not the whole work organisation system needed an overhaul, but just certain parts of it; one just needed to introduce the missing ‘market-economy’ skills. A union leader at Škoda summarised the newly emerged consensus:

We had one enormous weakness. We knew many things better than they [the Germans] did and I think that we do even today. We know how to be more practical, we can better improvise to achieve a better result. However, during the previous [state socialist] regime we completely failed in marketing and advertising and all of this (Pavlinek 2008: 92).

Managerial skills related to the new market economy oriented work organisation such as sales, accounting and quality standards were hardly present in the previous production regime so that after privatisation a number of new managers were hired. Škoda alone hired around 150 new managers to cover these skills (Hamacek Interview December 2006).

But among the managers already on board, the importance of local knowledge and unspoken ways of doing things were acknowledged. In the perception of local management, managerial authority is seen as something much more embedded in the company’s ‘labour collective’ than it would usually be the case in a Western firm. Thus, the original perceptions of a manager as a technically qualified specialist with responsibilities in decision making, rather than a visionary leader, have been preserved. The former perception with its clear roots in state socialist work organisation of production attributes a greater role to the whole ‘labour collective’, to general technical and organisational capabilities of production teams, rather than to the individual effort of a manager. Thus, Jung, Klemm et al. (2004: 21) report how Czech managers in Škoda were described as more ‘modest’ in relation to the German managerial style.

Also, the discretion of the production system described as a ‘chaos’ has been re-interpreted as ‘the capacity to improvise and be more flexible’. Thus, while during the early stage of transition local management skills were rejected, later the role of local context, local

experiences and local ‘ways of making cars’ have been emphasised (Pavlínek 2008: 93). When implementing new work organisation practices, local stakeholders identified a large number of features of their previous work organisation that they did not want to give up despite their high desire for modernisation: rules were welcome but to the extent that they were useful in the context of existing practices. Thus, a more moderate approach to modernisation that combined the strengths of both production systems was chosen (Dörr and Kessel 1995). Rather than a full transfer of practices, a professionalisation of already existing skills and expertise was chosen. In Škoda, with its strong engineering tradition, the demand for managerial autonomy in relation to the headquarters remained especially high. Preservation of autonomy and certain independence of local stakeholders in foreign-led modernisation process was crucial for the fast industrial modernisation described in Chapter IV. The direct involvement of VW managers in the daily running of the company was seen as temporal, of limited duration: ‘it motivated the demonstration of competence as a means of achieving autonomy’ (Jung, Klemm et al. 2004: 209).

The old production-related managerial skills were re-evaluated and professionalised. In Škoda, the most advanced form of such professionalisation was chosen. Although originally an outright training of management was planned, this was replaced early on by a tandem management and coaching that started half a year after the joint venture agreement in 1991. Tandem management was justified with a high speed of change that needed to occur at the Škoda plant, the weak managerial competences of local managers and thus the need for a speedy essential know-how transfer in ‘a more practical way than ever possible through seminars and other off-the-job activities, far away from everyday life’ (Gutmann 1995: 23). The management tandem arrangement was set up in late 1992 for German managers in key positions to work together with their Czech colleagues, usually for the period of three years. To the projects counted new organizational structure of HR, management performance appraisal, developing management guidelines and Škoda management culture, as well as developing further training programs. In 1995, there were 40 projects taking place (Gutmann 1995: 22). While in 1991 there were 50 expatriate managers working at Škoda, the number increased to 400 at the peak of the tandem project. Yet after the original period of three-four years, the role of expatriates was reduced and the Czech managers took more and more responsibility. Already in the mid-1990s, the number of expatriates declined: in 1996, there were 140 expatriates still working at the premises, while in 2005, there were only 40 left (Nanasi Interview December 2006).

The tandem practices at Škoda were an example of a close cooperation between German and Czech managers. This strategy followed the view that only certain, missing skills needed to be transferred while local know-how and experience of local managers should be preserved. The implemented changes allowed for knowledge and know-how transfer but this transfer happened in a highly contextual – rather than arm's length – way. Despite the introduction of more explicit rules and targets the importance of contextual local knowledge was acknowledged. The human resources manager confirmed that: 'The exchange [tandem] program with foreign managers was put in place to secure certain processes and know-how transfer' (Hamacek Interview December 2006). Professionalisation of broad managerial tasks rather than a transfer of specific sets of practices was at the core of this cooperation. In line with the valuation of local knowledge and local discretion, the know-how transferred was very general. Rather than being 'this is how we do things in Germany', the management training program had following dimensions: information and communication, economic management, innovation management, time management, HRM and industrial law, quality management, leadership and teamwork (Gutmann 1995: 22).

Despite stricter financial targets having been introduced in the subsidiaries of the VW Group, new financial and productivity goals have been balanced out through the discretion on the side of the middle and line management. At Škoda, rather than being constrained by narrow administrative or financial targets local managers were given a lot of autonomy:

Expatriates act as know-how partners in the process of local management development [...]. The group manager's task is to develop the professional and managerial skills of his local partner and thus enable him to manage his department independently. He acts, therefore, as a knowledge mediator and, first of all, a coach (Gutmann 1995: 21).

Further evidence of less 'transfer' but more 'supportive coaching' is visible in the following statement of the training manager: '[...] especially the expatriate must be able and prepared to lead a 'shadow existence'. Personal profiling is not appropriate' (Gutmann 1995: 22). Further she argues that 'vertical job sharing, which might at least seem useful at the beginning of a tandem partnership, is only to be used when absolutely necessary to secure know-how transfer' (Gutmann 1995: 22).

Local knowledge and local social organisation were preserved despite the introduction of new, market economy conform managerial skills. What made new work organisation

acceptable for local stakeholders was the relative high level of subsidiaries' autonomy in human resource issues that has been the norm in the VW subsidiaries and, arguably, in the German MNCs approach to human resource practices abroad more generally. Employment and work related issues are usually left to the local stakeholders (Bluhm 2007). German managers have showed a high level of understanding concerning the local practices: they did not see it as an institutional vacuum, nor were they unaware of potential problems of an outright transfer. Dörr and Kessel report how only in the very early stages of the Czech joint venture at Škoda the ideas of direct transfer were dominant and how very soon the company came to an 'independent modernisation and rationalisation concept' (Dörr and Kessel 1995: 8). German managers realised that organisational and production methods long known in the west European automotive production were no guarantee for success, but also – and much more crucial for our argument – German managers understood that a direct transfer of practices would hinder home-grown modernisation efforts and 'would destroy intact and functioning structures' (Dörr and Kessel 1995: 9). Thus, German managers seem to have had a good awareness of 'existing well functioning structures' so that despite the fact that there have not been any evidence of bigger social conflicts during the early stages of the joint venture, German managers were afraid that if these existing functioning structures and accepted rules would simply be replaced through western concepts it would lead to workers' protest (Dörr and Kessel 1995: 9). German domestic debates on transferability of the Japanese managerial practices to Germany seem to have sensitised German managers to the issue of local embeddedness. In VW Slovakia, it was the German manager that referred to the concept of 'job enrichment' (Zeller Interview March 2007), thus demonstrating that humanisation of work has become a part of German managerial thinking.

An alternative, more centralised, standardised and formalised human resources control is implemented by the Asian automotive MNC investors present in Central Europe. Their approach is characterised by providing a high level of information about the new work norms and rules upfront, during the recruitment process. Even more crucial, while VW allowed the subsidiaries to adjust their human resource practices to the local organising logics by leaving decisions about employment relation issues to local managers, Asian producers control the human resource practices in their subsidiaries in a very strict way. Thus, in Suzuki Hungary, a high standardisation and formalisation do not only concern the recruitment process but also the performance evaluation process (Swain 1998). The consequence of this strategy has been a strong worker resistance when such new forms of

work organisation were introduced. The turnover rate was also very high, at 20-30% of the workforce. Thus, in comparison to the VW subsidiaries, where new forms of work organisation were welcomed as 'more professional', in the case of Suzuki the employees experienced them as 'controlling', as standardisation and professionalisation have gone very far, without leaving enough room for local embeddedness and discretion.

In Central European VW subsidiaries, a relatively high level of local knowledge and local discretion remained, on the other hand, a crucial feature of managerial practices. Central European stakeholders have shown appreciative of the high level of embeddedness of local knowledge. Thus, it is appreciated when the necessary discretion is shown by German managers. In Škoda, during the introduction of a new work organisation system and a new production line for the 'VW quality' car Octavia, a new 'fractal' just-in-time production process was introduced in 1996 with the new labour force and new management team. But after a phase of quality problems the top management team was replaced by experienced Czech managers. The ability of the German investor, if necessary, to change the plan and adjust to circumstances in a discretionary and contextualised way, was appreciated by the local stakeholders: '[After this bringing back of the Czech managers], the situation improved dramatically', reported the industrial engineering director at Škoda (Nanasi Interview December 2006).

Central European stakeholders have also reviewed their own perceptions of the state socialist legacies and the early rejection of own traditions and practices gave way to a more balanced approach that welcomes new practices but reinterprets the old existing work practices in a more positive light. Thus, the Czech stakeholders were reported to have a self-perception of being 'flexible with a strong capability of improvisation and a tendency toward spontaneous decisions' (Jung, Klemm et al. 2004: 211).

There has also been an increased emphasis on the importance of local knowledge. While new managers with new skills in marketing, financial controlling, sales and human resource management were hired in the early 1990s, no important firing of 'state socialist' managers was reported. In 2006, still 30% of Škoda's managers were recruited before VW's take over (Holecek Interview December 2006). Furthermore, it was emphasised that in mid-2000s, most of Škoda's managers are recruited from company's own ranks. The skilled blue-collar workers can also become manager; the best are admitted to the appraisal system that presupposes two meetings per year with a member of the human resource department

during which professional goals and progress are discussed (Bila Interview December 2006). Local embeddedness in managerial thinking also means having a larger, more holistic view of the company. The manager from the training department reported on Škoda's plans to introduce horizontal rotation among managers, which would allow them to have a better overview picture of the company (Bila Interview December 2006).

The role of local commitment of Czech managers has also been raised as an important reason for managerial work. The director of managerial training department reported that managerial salaries were 20% lower in Mlada Boleslav than in Prague. He emphasised that:

what attracts managers to Škoda and what makes them loyal to the company is a combination of factors. [...] Among them is a good name of Škoda in the country and abroad. Also, some of the workers have been here since several generations (Holecek Interview December 2006).

To sum up, from the perspective of the local stakeholders, a higher level of rule-bound behaviour is welcomed, yet the importance of rules governing work organisation is still limited by a high level of contextualised knowledge. German recognition of the local knowledge and thus indirectly of local discretion has been crucial in this process. Rather than trying to overcome the local system of production, German managers recognised the importance of local knowledge. The use of tandems at Škoda in management 're-training' in this context is a telling example of how this balance between rules and discretion was achieved. Thus, despite more rule-bound new management practices, a new equilibrium between rule-bound and locally embedded, discretionary behaviour was reached that was found acceptable by local stakeholders as it complied with their enterprise organising logic of discretionary bureaucracy.

II. Formalising and standardising work organisation

While the last Section dealt with the changes in managerial attitudes and practices and the tension between greater professionalisation and standardisation of work practices, on the one hand, and preserving local managerial knowledge, on the other, this and the next Sections look at new work organisation practices introduced on the shop floor. Despite important organisational changes, also here, the introduction of more explicit rules could be counter-balanced to a certain extent by the discretionary behaviour of employees.

The ‘modern’ work organisation practices leaning on the VW headquarters’ work practices were introduced in all VW subsidiaries early on. The adopted work organisation has been a German form of lean production with certain local Tayloristic adaptations. In Škoda, the modern work organisation was introduced with the production start of Octavia. The new work organisation practices were introduced fairly fast, within two years, between 1996 and 1998. At Audi Györ, the introduction of the new production system took place at the same time (Nanasi Interview Dec. 2006). Similarly, with increases in production numbers and models in the mid-1990s, new work organisation practices were introduced in VW Poznan and VW Slovakia. The change in new work organisation on the shop floor in VW subsidiary plants has had two dimensions: professionalisation of work process has taken the form of formalisation of previously implicit non-codified norms and ‘ways of doing things’ on the one hand, and Tayloristic standardisation of work organisation practices, on the other.

A high degree of formalisation was a key dimension of the new work practices. Formalisation refers to organising logics governing the work process becoming more explicit. In some subsidiaries, as a reference to the Japanese ‘Toyota production model’, new work organisation practices that were introduced were given their own name. Thus, in Škoda, the new work organisation was originally called ‘the fractal factory’; later it started to be referred to as ‘the Škoda production model’ (Nanasi Interview December 2006). In other subsidiaries, there is no special term for the overall work organisation, but certain new sets of practices were given a name. In VW Slovakia, the initiation training is referred to as a ‘Profiraum’ – a professional space. But even if no own name was given, work organisation has become an explicit issue where more explicit rules, targets and codes of conduct were introduced. Various training opportunities were given to workers to familiarise themselves with the new rules. Thus, in Škoda, different dimensions of work organisation are explicitly discussed during the training sessions. The functions and responsibilities of team leaders are clearly stated and workers receive training on standard principles and soft skills (Nanasi and Bila Interview December 2006). Similarly, in other subsidiaries, technical training is now only one dimension of training, while much greater attention is devoted to organisational knowledge and soft skills.

A good example of formalisation of organisational practices is the introduction of the concept of quality system. Its introduction has brought substantial differences for work organisation. The broad concept of ‘quality system’ encompasses the whole production

process rather than the quality of produced goods: it includes such fields as training, sourcing etc. All those dimensions were also a part of the previous production process, yet now they have received a higher degree of formalisation. A VASAS trade union leader reported on how the work organisation has changed in the Hungarian component and bus producing industry:

Today, the quality system is different. Today, it is a very important part of the company. There is not only quality control, but quality system which means 'to have every process in a written form – for the finance, invoices, etc; not just production (Mezei Interview September 2008).

Thus, a stronger formalisation of work processes in the new production system has often taken the form of documentation.

Formalisation of work practices has meant making rules and regulations more explicit and visible. This type of high degree of formalisation has been strong in the quality control. The previous production system had quality control but its explicitness was lower.

[Before], quality control was very strict. The quality control people came and controlled every step. These were high-level engineers; the controls took place all the time. Not only final products but also intermediary products were controlled for quality (Mezei Interview September 2008).

Today, quality standards are also ensured through the international system of quality accreditation. Thus, in Škoda, external quality of production audits take place at least twice a year but internal, small scale audits take place on a much more frequent basis: every second week or twice a month. Similar regular audits related to ISO²³ standards take place in all other subsidiaries, a standard practice in the VW.

During state socialism, the wage of individual worker could be reduced as a punishment for a production error, yet the pre-emptive measures were lacking. In the new production system, pre-emptive measures are much more dominant and formalised. All factories have a signalling system installed in production halls, with boards showing the number of production related indicators: number of produced and still to produce units for the shift. Also, there is a visualisation of mistakes in the assembly line production (Nanasi Interview December 2006). The formalisation also increased in the field of skills related to quality control. 'Profiraum', a training space for all new employees introduced in 2005 in VW

²³ International organisation for standardisation

Slovakia, is a good example of such new practices. All employees including skilled ones need to go through two-week training before starting work. They need to know the order of tasks and be able to elaborate on the quality and product relevant features related to their workplace (Zeller Interview March 2007). Also in Škoda, skills related to production quality are formalised and trained:

People need to know what the role of this work position in the overall production chain is, what is the responsibility, what quality systems we are using' [...] Even if the work on the assembly line is manual and not very complex, we need people who can explain to the auditors what they are doing, what technologies they are using, what are the risks involved. (Vacek Interview December 2006).

Thus, formalisation through documentation and visualisation has been the first type of new work organisation.

Another activity that has now been explicitly formalised is team work. During state socialism, teams were mainly administrative units rather than anything else and the work organisation within teams was highly informal. In Hungary, usual work organisation in the metalworking sector consisted of large groups of 20-30 people. The group leaders who also worked at the assembly line were appointed by management and had very general managerial tasks 'to organise the job, the people' (Mezei Interview September 2008). Thus, the level of individual autonomy and discretion was high. With the new work organisation, the role of teams has changed. In the new work organisation, teams were made smaller and were expected to become more self-driven. In Škoda, a team covers eight to ten workers and they have an important level of autonomy or, as the manager calls it, 'responsibility' (Nanasi Interview December 2006). In VW Slovakia, teams are also small: ten workers on average and within the range from eight to thirteen workers. With the changes in work organisation, teams elect their team leader who is freed from work on the assembly line. Teams are expected to organise team work autonomously. Thus, in VW Slovakia, teams can decide autonomously about the rhythm of rotation between the three work posts that each worker has (Zeller Interview March 2007).

Yet, overall, the scope of autonomy and discretion for blue-collar workers has dramatically decreased. Standardisation of previous work practices has been the second crucial feature of the new work organisation; it is associated with a greater Taylorisation of the production process. The 'classical' Japanese lean production is a mix of standardisation of certain work practices, on the one hand, and of provision of space for autonomy and discretion for

employees, on the other. In comparison to the ‘classical’ lean production in German and Central European VW plants, the level of discretion is slightly lower, while the level of standardisation is higher. Tayloristic features of the work organisation are visible in the fact that the quality control mechanisms of the ‘classical’ lean production, such as stopping the assembly line in case of an error, do not exist. Not surprisingly, the responsible manager saw the disciplining effect as more important. He argued that assembly line stoppages would not work as

in the previous system workers relied on outside rather than self-control so that workers do not see stoppages as a chance to resolve the error but rather as a break’(Nanasi Interview December 2006).

Here, standardisation and lack of discretion is interpreted as a disciplining measure by the manager. But, interestingly, a higher level of Taylorisation is also accepted by trade unions. In many fields, higher standardisation of work organisation has been associated with professionalisation. Thus, in product development and R&D departments, it was reported that further deficiencies that needed to be overcome lay in the fact that the feedback from the assembly line was not standardised and the links to production units and to customers were ad-hoc (Nanasi Interview December 2006).

Not stopping the assembly line has been a wide VW Group-wide practice but still, overall, Taylorisation of Central European practices is higher than in German practices. Important standardisation features of the new work organisation are the low cycle times. In state socialist production system, cycle times were high which implies, again, a high autonomy of work organisation. They were especially high in Hungary that was specialising in complex component production. The VASAS trade unionist described the process of the production of auto chassis:

The production process was divided in small steps. [...] It was one group that built the chassis – welders. [...] The usual task duration was 1h-1h 10 min. This was for the task of an individual worker (Mezei Interview September 2008).

In the new work organisation, cycle times are much lower. Thus, in the main assembly line, cycle times are very low: around one minute in Škoda and up to 2.1 minute in VW Bratislava. This type of standardisation is associated with higher Taylorisation and monotony of work. Certain, this high level of work standardisation is also linked to the evolution of the automotive industry as a whole. The introduction of system suppliers that

was already mentioned earlier strongly reduced the technical complexity of work, as the assembly of technically sophisticated production modules is now done in the supplier factories. These modules are then delivered to the assembly line of the final producers, the VW subsidiaries (Zeller Interview March 2007). Work breaks are also strongly standardised, to half an hour per shift in VW Bratislava. Work breaks are fixed to a specified time window to allow this time to be used for equipment maintenance (Zeller Interview March 2007).

Yet although overall work practices have a high degree of Taylorisation, still a certain balance between standardisation and discretion is kept. In most production processes, there is a possibility for workers to rotate between tasks. Thus, in VW Bratislava, workers know three different work positions within each team and there is a possibility to rotate for avoiding monotony and for ergonomic reasons. For certain difficult positions, such as in paint shop, workers have to rotate every two hours (Zeller Interview March 2007). In Škoda, cycle times are set for teams and for work places but the teams can decide themselves during the 'continuous improvement workshops' how to structure their time (Nanasi Interview December 2006). In this respect, although a shift to greater standardisation took place, still a certain balance between rules and discretion was preserved.

A greater standardisation of work is associated with the expansion of the economic organising logic: it is a mechanism to increase the discipline and to make production more cost-efficient and thus profitable. The high productivity goal remains undeniably the main factor behind this higher standardisation. 'High productivity pressures come from the headquarters' benchmarking. Explicit goals of productivity increases are fixed every year' (Langenfelder Interview March 2007). The high productivity goals provide justification for the middle- and line-management to strengthen work discipline and to increase control. It has been argued by a Škoda's middle manager that 'the quality of training and skills was high during state socialism; the low quality of production can be attributed to the missing disciplining and controlling factors' (Vacek Interview December 2006). It was pointed out that the effects of this 'disciplining' of the new work order were significant: during the first two years of joint venture labour productivity increased without any significant financial investment. Pavlinek describes the increased managerial control of the production process as a

replacement of the state socialist work organisation and shop-floor practices with capitalist ones. The anarchy of production associated with the state socialism [...] has been replaced with the planned organisation of production (Pavlinek 2002: 366).

The anarchy and the high degree of autonomy and job control on the shop floor gave way to the authority of foreman and managerial control (Pavlinek 2002: 366).

Further justifications for the high Taylorisation and for a low level of discretion have been the complexity of work and a high number of new employees due to high turn over. At VW Slovakia, the industrial engineering manager, a German expatriate, explained:

The optimal cycle times are usually one minute. This is ideal: the content is divided into small portions and is better to manage [for the employees]. This is good – to have an assurance about the quality, but also when we take into account the new employees. 2.1 minutes are also still manageable, but longer cycle times such as 3-4 minutes are not possible due to complexity of the cars produced. [...] The complexity of cars is related to a large number of parts: even in terms of logistics, longer cycle times would not be possible (Zeller Interview March 2007).

Even if these other justifications are valid, the productivity pressures and cost-efficiency rationale remain the dominant factor behind high Taylorisation.

The professionalisation of blue-collar work through formalisation and standardisation has been associated with a greater managerial control, as company trade unions and works councils have not played any decisive role in designing and implementing the new work organisation. Partially, this has been due to national labour codes that do not extent consultation and co-decision rights to work organisation issues apart from those discussed in Chapter V. But independently of the existence of legal co-decision rights, what is striking is that trade unions do not see the adoption of the new organisational practices as problematic. Labour has not opposed the introduction of such Tayloristic work practices: rather than seeing this issue through the prism of decreasing self-control, unions feel that the high level of standardisation is justified despite the increased monotony of the work process. Discretion and autonomy as crucial factors of job enrichment do not seem to be important for unions. The trade union leader at Škoda stated that after the regime change that it was not so much the new skills but 'the new work organisation and order' that changed and made a difference (Pavlinek 2002: 366).

This Section described restructuring of work organisation and managerial practices that took place in the VW subsidiaries. This restructuring had as a goal the establishment as a rule-bound, ‘professional’ work organisation, a bureaucracy. The goal was to achieve higher cost efficiency and higher productivity as well as to streamline the production process. Two work organisation strategies contributed to its creation: standardisation and formalisation of work practices. The chaos and informality of the previous production process with its spontaneous, discretionary and informal interactions was replaced by the formal, standardised, rule-bound work organisation that was associated with a higher vertical integration, Taylorisation and a greater managerial control.

The next Section deals with the other side of the coin, the preserved discretion in work organisation. Despite the shift to greater optimisation of work processes that in many institutional set-ups was associated with standardisation and formalisation, a certain balance between these new economic organising logics, on the one hand, and the non-economic organising logic of individual discretion and autonomy at work, on the other, has been preserved.

III. Preserving discretion in work organisation

The last two Sections demonstrated that in line with the economic organising logic of the law of value, the level of strategic managerial control has increased through formalised and professionalised managerial training as well as through formalisation and standardisation of work practices on the shop floor. Yet at the same time, following the logic of appropriateness, a certain level of discretion and autonomy of blue-collar workers have also been preserved. They were preserved because the blue-collar vocational skills have preserved their high standing in the eyes of the local stakeholders: this has been the deontological dimension behind the societal re-embedding of the economic logic of cost-efficiency and process optimisation. This Section develops this argument and shows how the deontological underpinnings of work organisation practices had had their roots in state socialism, but also in the German more humanistic adaptation of lean production practices.

As discussed earlier, during state socialism, despite the state administrative planning, the production process was highly unpredictable. Labour and material shortages led to an uneven rhythm of production which demanded a high degree of expertise and good coordination skills not only from the management but also from the experienced and skilled core workers. As discussed in Chapter III, high intellectual and technical skills among core

workers were an important component of the spontaneous, discretionary, last-minute work organisation: rather than being an elaborate managerial strategy, it was rather an 'enterprise survival strategy' that middle managers and shop floor workers developed, often using informal negotiations. This Section argues that despite large-scale institutional and organisational changes towards larger formalisation and Taylorisation of the production process described in the previous Section, a reliance on expertise and discretion of skilled workers remained an important pillar of the work process in Central European VW subsidiaries.

The previous Section presented standardisation and formalisation of work organisation as two parallel and interrelated processes. This Section argues that only allowing for individual autonomy and discretion at work, in parallel to standardisation, made the new work organisation a success in Central European VW production locations. Preserving work discretion and autonomy on the shop floor has been linked to more autonomous middle and line managers whose autonomy was established through simplification and flattening of the previously existing hierarchical structures. During state socialism, the hierarchical structures in state owned enterprises were highly developed: the share of white-collar administrative staff was very high. For example, in a leading bus Hungarian producer Ikarus, the share of white collar workers was 40% of the total labour force (Mezei Interview September 2008). Although the extent of organisational change that followed privatisation has differed across subsidiaries, the general trend is shared: the hierarchical structures were simplified and flattened. In Škoda, hierarchy was reduced to five levels: team leader, Meister, shift supervisor, production unit supervisor, and plant director. This increased the degree of autonomy of all production units. The degree of independence and managerial responsibility of individual production units increased to such an extent that the plant was referred to as 'factory within a factory' (Dörr and Kessel 1995: 10). A similar trend of the reduction of the white-collar staff and improvement in the blue-collar to white-collar employment ratio has also been observable in other VW subsidiaries. The overall flatter hierarchical structures contributed to stronger autonomy of middle and line managers: 'As a middle manager, you can do more here, in this mixture of German and local management structures. It is less hierarchical (Zeller Interview March 2007)'.

What is interesting is that despite an important change in the set-up of work organisation, this 'new autonomy' and discretion still rely on the technical and intellectual skills of the shop floor workers. The use of technical, vocational education skills is still high. As

described in Chapter III, the level of technical skills was high during state socialism, or at least comparable with the German level. The stakeholders in VW subsidiaries confirmed that the original level of skills in their plants before privatisation to VW was very high (Zeller Interview March 2007). In VW Slovakia, in 2006, only 1.85% of the workforce was unskilled, while 45% were in secondary technical school training, and 27% had a secondary technical school certificate (VW Slovakia Presentation). In Škoda, in the mid-2000s, 52% of the workforce was in an apprenticeship training and 31% had a completed vocational training (Škoda 2004). In Audi Györ, all blue-collar workers were reported to be skilled workers (Radi Interview August 2007). For comparison, the share of skilled labour in VW Germany was 76.6% in 2000. Thus, the overall share of employees with vocational training in Central European VW subsidiaries was the same or even slightly higher than that in the German VW plants.

Even more important than the formal level of certified skills, what provides evidence for the high use of the technical and intellectual skills of the shop floor workers is the intensive use of labour in the car assembly process. The level of automation is an important indicator of the level of skills among the blue-collar labour force as only highly qualified blue-collar workers can perform the production steps necessary in today's complex process of car production. In all four Central European VW subsidiaries the level of automation has been much lower than in the VW headquarters which is estimated at 98%. In Škoda, the overall level of automation is much lower than the level in the headquarters. Thus, in the production of old Octavia and of the old Superb, the level of automation was extremely low, at 10% and 5%, respectively. In VW Slovakia, at the beginning of the joint venture, 100% of production was manual work (Interview Holecek March 2007). The production of new Superb was automated to 30-40%, similar to the production lines of the Roomster. The high level of blue-collar skills has thus been visible as blue-collar workers were able to construct modern cars practically without any automated support system.

The levels of automation are higher for models with higher production numbers: the production of the new Octavia with a production capacity of 800 vehicles a day has been automated to just below 50%. Fabia, the mass production car of Škoda with 1000 vehicles per day, has had an automation level of approximately 50% (Nanasi Interview December 2006). Thus, a pattern of automation emerges: on the one hand, there are 'small series' productions of 200-300 cars per day, with a relatively low level of automation of 30-40%, while, on the other hand, there are more 'mass' productions of 900 vehicles per day that

have a higher level of automation of 50%. But what is interesting is that even the cars with a higher production volume have had a relatively low level of automation. With its level of automation that varies between 30-50%, Škoda's degree of automation is still less than half of the level of VW plants in Germany. Similarly, at VW Bratislava, while there have been large differences between the models²⁴, overall, the degree of automation is substantially lower than in the German VW plants; it is on average 65% (Interview Holecek March 2007). This, again, shows that a high level of blue-collar skills and their intensive use have remained an important feature of work organisation in the Central European VW subsidiaries.

Local management has shown a clear awareness of blue-collar skills being a highly valuable resource. It justified the decision of a low automation with an increased flexibility of the production process. 'People, after all, can better learn new production processes than machines' (Nanasi Interview December 2006), was the dominant argument. The company followed a strategy of increased flexibility as the low automation allows constructing assembly lines in a more flexible way. The same awareness is also visible in other VW subsidiaries. Furthermore, the high level of vocational skills is given as one of the key reasons for the fast industrial upgrading that took place since the early 1990s. The human resources director at VW Slovakia explained: 'One reason [for the successful upgrading] is the highly qualified people. Earlier, we had a complete dual system of vocational training' (Holecek Interview March 2007). The human resources director also made clear that the differences between the German and Slovak levels of skills were not that large despite the prejudices on the German side:

At the beginning when VW came here, they believed it would be like in a third world country [...]. The first training program for the paint shop was planned to last one year, yet after three months there was nothing to do because the employees were trained. Because the German managers thought they needed to take people down from the trees. Nobody knew exactly how people were qualified. They first thought that people here needed to be taught to read and write (Holecek Interview March 2007).

Blue-collar skills are valued and developed also because they are seen as a source of technical innovation. There is a formalised process of information sharing and exchange to foster technical innovation coming from the shop floor. At the VW Slovakia, team leaders participate in formal regular meetings with specialists from industrial engineering where

²⁴ Golf was originally 100% manually produced, Polo was at a 40% automation level. Porsche Cayenne and Touareg at 60% and Q7 at 50%, respectively.

they can bring in their ideas about 'how to make things better'. And there are also workshops for ordinary blue-collar workers where they can 'adjust and try out different things' (Zeller Interview March 2007) with the goal of optimising the production process. Similarly, 'continuous improvement workshops' regularly take place in Škoda. Furthermore, white-collar engineers work with the blue-collar workers on the daily basis, as the latter represent a crucial source of expertise. When describing the work process in the production unit, the director of industrial engineering at VW Slovakia reported that

The process engineers are officially part of the [white-collar] planning units, but physically they work on the shop-floor so that they can define, together with the [blue-collar] production unit supervisors, the daily priorities and the work process (Zeller Interview March 2007).

Thus, the vocational skills and the expertise related to them represent an important source of work autonomy for the blue collar workers.

Furthermore, management's commitment to the preservation of a high level of technical skills is not merely a lip service. Three factors are important in this respect. First, VW subsidiaries are among the rare cases of companies in Central Europe that still train their own apprentices. Thus, Audi Györ and Škoda have large trainee programmes, while VW Slovakia trains only few own apprentices – 12 per year – but has been developing a project to support the national vocational training schools in the fields related to the automotive industry (Holecek Interview March 2007). Second, due to technological innovation, the technical qualifications of employees are being constantly developed. Thus, regular training courses take place on companies' premises. At Škoda, regular training takes place every two years. Also for technology experts, companies cooperate closely with their technology suppliers: in Škoda, when new machines are bought, the company arranges for the training courses for its technical specialists (Vacek Interview December 2006). In VW Slovakia, to better insure the high level of vocational training skills, the management mentioned the plan to introduce a re-certification of skills every half a year and, if necessary, a re-training of staff (Zeller Interview March 2007).

Finally, during the organisational shifts from one technology platform to another, when certain technical skills become obsolete, additional training is provided to employees. In Škoda, one such crucial moment was during 2002-2003, when a change of the technological platform from 20 year-old state socialist-era machines to a new, VW

technology equipment, took place. The director of Škoda's component production reported how difficult the change was and how the company invested in training:

We had 4,500 people, 40 to 60 years old; they spent all their life working on one machine. And now, they had to move to another shop floor, new factory that had machines that were two-three generations further [...] So people were afraid to go into this new production, as work organisation was new; it was a new world. So we organised an external training for them: motivation, technical training and training on the job. [...] We organised small workshops in small groups, it took about $\frac{3}{4}$ of year, this training. [...] And in this way we could break the resistance [to change] (Vacek Interview December 2006).

The high valuation of the vocational skills is linked to a certain level of autonomy and discretion. Thus, the director of the engine plant in Škoda argued that in the new work organisation imported from the VW system and characterised by a high quality of production apart from quality checks, responsibility on the shop floor and giving feedback was crucial (Vacek Interview December 2006). The industrial engineer at Škoda also believed that with time, with increasing responsibility on the shop floor it would be possible to stop the assembly line in case of a faulty product (Nanasi Interview December 2006). These examples demonstrate that, despite the increased standardisation and professionalisation of work process, a certain level of discretion and autonomy based on local expertise and vocational training has been introduced and was expected to be extended.

Thus, the vocational skills and the discretion linked to them continue to be valued. Certainly, the local non-economic organising logic of skill valuation and work autonomy have not been the only factors that have contributed to the modernisation of work practices; they interacted with a number of other factors. The practices of lean production association with economic liberalism that were implemented in the VW subsidiaries aimed at increasing productivity and cost-efficiency at work, but they were 'softer' in comparison to the lean production practices of subsidiaries of the Asian car producers. The VW lean production practices did not 'go all the way' in introducing optimising work organisation techniques. This made it easier for local actors to adopt the new work practices as the balance between rules and discretion was not severely disturbed. The restructuring and introduction of rules related to optimisation rationale were seen as disciplining and professional rather than controlling. Despite the shift towards less discretion and more rule-bound behaviour, certain features of discretion and autonomy have been preserved. What made it easier for local stakeholders to adopt new, more rule-bound and standardised work

organisation was the fact that the source of the new discretion was legitimised by the technical expertise as valuation of the vocational training has been preserved. Thus, in the new institutional set-up, the new discretion was still founded on technical and engineering expertise, as during state socialism.

The valuation of technical vocational skills in work organisation has its roots in state socialist production practices that we discussed in Chapter III, but also in the German influence, as work organisation practices implemented in the VW subsidiaries have been strongly influenced by the practices in the VW headquarters. Two elements of German automotive industry development were important in this respect. First, the experience of German managers and works councillors with the adoption of lean production practices back at home has been to a certain extent similar to that of their Central European subsidiaries: the informal level of individual autonomy in German production sites has been high.

As industrial development has proceeded in Germany, companies have [...] preserved elements of craft methods. Sectors with small product runs and client-oriented, individualized production have met the need for high quality and a high level of flexibility with self-regulation of integrated processes. Hence, in many sectors, semiautonomous groups are crucial elements in the way work is organized. In many companies, there was no need to define and institute such groups, since they often grew quite naturally out of the way in which skilled workers were trained. In the automotive industry, for example, some companies have group work structures that date back to the immediate post-war period; these structures have proved stable and resilient, although the label 'group work' was a later addition (Roth 1997: 118).

Thus, also in Germany this high level of skill autonomy was linked to the high level of vocational training that workers had long before the introduction of more optimising lean production.

Second, the VW version of 'lean production' that was implemented in Central European subsidiaries was informed by the German public debate between employers and industrial trade unions on the 'humanisation of work' that had a high public exposure. Roth describes how demand for humanization of work understood as 'broadening the scope of worker's initiative [...] but also the scope of decision making' (Roth 1997: 119) have been on the table since the 1970s but the practices that would mirror these demands did not go beyond the experimental stage because in the 1980s German management chose to give a greater weight to automation in the hope to catch up with the Japanese competition. It is only with

the international U-turn in managerial practices that followed the publication of Womack's et al. (1990) 'The Machine that changed the world', the role of worker's autonomy and motivation became a common knowledge and the earlier trade union demands of humanisation of work could resurge and at least to some, even if limited, extent influence the adoption of the new popular lean production practices. The German humanisation of work debate has had a certain influence on the preservation of discretion in work organisation of Central European production sites discussed in this study. While the early demands of German metalworker unions were influenced by 'Volvoism' i.e. the experiences in high level of work autonomy in Volvo and Saab in Sweden, the path that German managers decided to go in the 1990s was that of 'Toyotaism' i.e. work practices that mirrored more closely Japanese experience or even that of a third model – American influenced lean production practices that negated the importance of autonomous and skilled workers and built on a set of narrowly defined common skills, standardised and Taylorised work practices as well as a high level of pressures linked to 'continuous improvement' paradigm (Roth 1997). In other words, when the VW Group implemented its lean production practices in its Central European subsidiaries, the zenith of the 'humanisation of work' debate was long time passed. However, even if work organisation practices implemented in the Central European VW subsidiaries in the late 1990s and early 2000s stand in a strong contrast to the practices of 'Volvoism' characterised by a high level of autonomy, it would be wrong to assume that the 'humanisation of work' debate did not influence the new work organisation practices in the VW subsidiaries at all. Even if this influence should not be overstated, the 'humanisation of work' debate certainly informed the ways of thinking of the German managers at home and also when designing work processes in the Central European VW subsidiaries. Consequently, it has been a supporting factor behind the local organising logics of skill-based autonomy and discretion described in this Section.

To sum up the argument of the Section, despite a shift from highly discretionary to a much more formalised and standardised organisation of work, the Central European VW subsidiaries evolved a lot but did not completely break with the previous non-economic organising logic. On the contrary, the Section referred to certain continuities with the earlier state socialist work organisation. A certain degree of work autonomy based on the valuation of vocational training and skills still exists, even if it is not comparable to the previous system. Formalised and standardised work processes and human resources strategies of work organisation that were introduced with the German investment were

combined with a certain degree of autonomy and discretion at work, with valuation of vocational technical skills being at the core of the ‘new discretion’. Although the source of discretion has changed: before it was a ‘by-product’ of the system, while in the new system it was granted by the management; in both cases it is the expertise related to the vocational skills that has been valued and has constituted a logic of appropriateness, a value in itself. The enterprise organising logic of ‘discretionary bureaucracy’ thus survived into the post-communist era, even if in quite a different institutional form. Thus, in this Section, again, I presented some evidence of how the instrumental organising logic of economic liberalism has not become completely dominant but has been at least partially re-embedded by means of a pre-existing non-economic organising logic.

Conclusion

In the early days of transition, the importance of contextualised knowledge of managerial staff and the significance of work discretion for blue-collar workers were recognised neither by the foreign investor, nor by local stakeholders themselves. Yet they have been an important legacy of state socialist production system: the discretion based on technical expertise contributed to making the new work organisation in the post-communist period a success and contributed to the industrial modernisation of the plants. This happened despite a strong institutional change that shifted the source and the justification of discretion and strongly limited its role. Despite the introduction of a high degree of standardisation and formalisation of work, the firm remained for local actors a discretionary bureaucracy, a place where formalised and standardised behaviour dominates but where it is partially counter-balanced by a certain level of discretion based on skill autonomy.

Conclusion for Part 2

To recapitulate, the Weberian distinction between instrumental and value rationality introduced in Part 1 was used to ‘translate’ the distinction between the two philosophical schools of utilitarianism and Kantian idealism into the language of social sciences. Using this ‘translation’, I was able to fill the Polanyian concept of the double-movement with new life as it proved to be relevant for the company level research. I identified three organising logics that have been examples of the struggle between instrumental rationality, on the one hand, and moral commitment and mutual obligation, on the other. Part 2 demonstrated how three non-economic enterprise organising logics with their strong legacies in state socialism have continued to be important enterprise organising logics during the 1990s and early 2000s, even if their institutional underpinnings have dramatically changed.

The concluding Chapter that now follows takes stock of the main research findings and of what the emphasis on non-economic organising logics means for the study of societal re-embedding and for the neo-institutionalist theory.

Lessons of transition: the normative dimension of business and work

The central research goal of this study has been to identify the forms of economic liberalism and societal embeddedness in post-communist Central Europe. The title of the World Bank report 'From Plan to Market' (1996) summarises the socio-economic reforms that the Central European countries have embarked upon since the early 1990s. In many aspects these reforms have been associated with more individual freedoms so that economic and political *liberalisation* did indeed represent a larger *liberation* of Central European societies from the control of the Communist Party (Bryant and Mokrzycki 1994). Yet when the oppressive controls were abolished and the Party state system collapsed, economic liberalism was taken to another level; it started to present itself as the dominant organising logic that negated other organising logics of business and work. However, Polanyi had already pointed out that by imposing economic logic on the different spheres of work and production, economic liberalism becomes a potentially destructive force, a force that threatens to destroy the societal fabric and the respective reciprocal societal commitments (Polanyi 1957). The research goal of this study has been to operationalise - theoretically and empirically - the organising logic of economic liberalism and of societal embeddedness in post-communism. This concluding Chapter is organised as follows. Section I summarises the main findings of the study. Section II assesses the contribution of this study to the neo-institutional literature on social embeddedness and academic debates led in this literature. Section III considers the role of the neglected normative dimension for neo-institutional literature more broadly.

I. Main findings

Using the conceptual framework of the Polanyian double-movement this study aimed at identifying the forces of economic liberalism and societal embeddedness and the dynamic tension between these two organising logics in the context of the post-communist transformation. The research approach is characterised by an interactive relationship between the theoretical and the empirical inquiry. Preserving a balance between 'discipline and imagination', to use Weick's metaphor, aimed to produce empirically informed theorising. This is why the two constitutive Parts of the study - the theoretical (Part 1) and the empirical (Part 2) - have been given equal space and attention. Theory generation has been an important goal even if 'theory' in this case was a modest mix of categorising

organising logics and bringing together the Polanyian concept of double-movement with the micro-level focus on enterprise organising logics.

For Polanyi, capitalist society is organised around two opposed organising principles: economic liberalism and the embeddedness of societal relations. The tension that inhabits this space is a creative one as long as the two principles remain in a relative balance (Bryant and Mokrzycki 1994). Polanyi underlines the communal reaction that emerges as a response to the expansion of the market logic and tries to preserve the social fabric of society. Building on Weber's study of rationality, and using concepts of economic sociology (Maurice, Sellier et al. 1986; Boltanski and Thévenot 2006) and political science (March and Olsen 2004), the present study has applied the Polanyian counter-movement and a re-embedding of societal relations to the post-communist context. The three identified non-economic enterprise organising logics set limits on the new economic logic of managerial dominance, cost-efficiency and financial optimisation as well as on the standardisation of work practices that entered the scene with the political regime change. The study has introduced the non-economic organising logics of the firm in state socialism that were discussed as important factors behind the Polanyian societal re-embedding in post-communism.

The case studies discussed in Part II provide empirical evidence of the normative dimension of business and work (for an overview, see Table 10). They deal with three enterprise organising logics of the automotive VW subsidiaries in Poland, Hungary, the Czech Republic and Slovakia. Economic liberalism and firm modernisation have been associated with a large number of political reforms and institutional changes. I have divided them into three categories that are relevant for company-level institutional analysis: (i) the expansion of managerial authority, (ii) the financialisation of firm's performance and, finally, (iii) the de-contextualisation of managerial knowledge and increased standardisation of work organisation. In relation to these institutional changes, a number of deontological, non-economic organising logics have been mobilised by the stakeholders so that the three dimensions: i) corporate governance and welfare provisions, ii) enterprise performance and, finally, iii) work organisation, are not completely subsumed by the cost-benefit utilitarian logic.

The three non-economic organising logics are: (i) welfare protection of employees by the firm, (ii) valuation of industrial capabilities expressed in a 'productionist' attitude and (iii)

valuation of skill autonomy and contextualised knowledge and the discretion associated with them. These three enterprise organising logics have been translated into three mutual commitments between the firm and the employees, whereby the firm is perceived as i) an authoritarian paternalist, ii) a source of competitive industrial capabilities and iii) a discretionary bureaucracy based on skill autonomy. These three non-economic enterprise organising logics have not abolished the logic of economic liberalism but have restrained and moderated its expansion. Thus, the organising logic associated with economic liberalism in the post-communist context has evolved to a more complex enterprise logic that combines both instrumental and value rationality and thus exemplifies the inherently contradictory nature of modern capitalism. Thus, local stakeholders have not opposed new market-based institutions, yet they have displayed certain non-economic enterprise organising logics, societal commitments and mutual obligations, that have constrained and moderated the expansion of economic liberalism.

Table 10: Organising logics of economic liberalism and societal embeddedness

Dimension of enterprise activity	Organising logic of economic liberalism	Organising logic of societal embeddedness	Emerging enterprise organising logics that combines economic liberalism and re-embeddedness
Firm governance/ welfare provisions	Expansion of managerial authority, unions as junior partners, weak collective agreements	Employee welfare protection	Authoritarian paternalist
Firm performance	Financialisation of firm performance	Productionist orientation of employees, value of industrial capabilities	Competitive industrial capabilities
Work organisation and skills	Standardisation of work and de-contextualised management	Value of skill autonomy and contextualised management	Discretionary bureaucracy

Finally, although this study is guided by an interest in the forces and forms of societal re-embedding, an important finding is also related to what constitutes economic liberalism or, as Weber (2002) calls it, the 'spirit of capitalism'. Rather than referring to economic liberalism characterised by the ideal-typical features of dominating market forces in general, this study has attempted to qualify and specify the concept of economic liberalism describing it as instrumental, utilitarian and purposive nature of economic activity. Yet it has also tried to be more specific by describing the exact forms that economic liberalism has taken in the context of post-communist enterprises. As societal embeddedness is a general term for the variety of non-economic organising logics, so economic liberalism is a

general term which encompasses the varieties of meanings and institutional forms that the economic organising logic can take.

II. Re-introducing the normative dimension in neo-institutionalism

Many authors since Polanyi have dealt with the issue of societal re-embedding of economic liberalism and have considered different instances of its appearance. As discussed in Chapter I, for scholars of capitalism in 'developed countries', societal embeddedness was expressed by the organised interests that preserved their function of 'beneficial constraints' (Streeck 1997; Hyman 2001; Hyman 2005). In the neo-institutional literature that studies the 'developed' countries, the notion of organising logics as a driving force of societal re-embedding has remained neglected. Even if literature on institutional arrangements that point towards common perceptions and values exists in abundance (Zagelmeyer 2000), only very few strands of neo-institutionalism address the issue of normative frameworks, and often they do it in a very implicit way. The neo-institutionalist literature on post-war Japan is most relevant for this study as for Dore (1992) and other scholars of post-war Japan, the long-time horizons and the notion of firm as community represent the forces of societal re-embedding in the Japanese context (Yamamura and Streeck 2003).

Yet overall, the normative dimension remains largely under-theorised in neo-institutionalism. Often, it has been subsumed by the more general and vague concept of politics and culture. Thus, Burawoy writes in relation to the post-communist transition:

In the imagination of policymakers, the economic is a series of purely economic interventions – privatisation, price liberalization or levers controlling inflation, interest rates, budget deficits, and the like. When these interventions meet everyday life, however, the resistance they encounter is not just economic but cultural and political (Burawoy and Verdery 1998: 14).

Culture and politics are useful concepts but they are very general and need fine-tuning if the nature of societal re-embedding in Central Europe is to be better understood. Building on Kant's reflections on morality this study has made a distinction between deontological and utilitarian organising logics that has shown to be helpful in explaining the dynamics of post-communist company organising logics. Deontological organising logics that interpret social relationships as a final goal valuable in itself have opposed the expansion of instrumental organising logics that interpret social relationships as means of reaching some

other goal. Based on this distinction this study has argued that the organising logics of economic efficiency have expanded but that they have been constrained and moderated by the non-economic organising logics.

Building on the neo-institutionalist literature, the authors of industrial relations and political economy come to the conclusion that no societal re-embedding has taken place in Central and Eastern Europe in response to economic liberalism (Ashwin 1999a; Ost and Crowley 2001; Bohle and Greskovits 2006b). This study has attempted to go beyond the conceptual frameworks that are currently used in the neo-institutionalist literature. It has used a more sociological approach, which has engaged with those strands of the neo-institutionalist literature that explicitly or implicitly deal with the concept of societal embeddedness. I have operationalised Polanyi's (1957) concept of the double-movement in a different societal context and time by underlining the importance of non-economic enterprise organising logics and the normative dimension of business and work. Thus, in contrast to the industrial relations literature, this study identifies a counter-movement in Central Europe arguing that despite a shift towards economic liberalisation of institutions of work and production, a certain societal re-embedding and preservation of the societal fabric has taken place.

The literature on non-liberal capitalism has already pointed out that societal embeddedness is never automatic, but always 'at peril and its emergence uncertain' (Streeck 2007: 12). Similarly, Clark and Soulsby argue that '[a]s in all social structures, the continuities of "institutional embeddedness" [...] are precarious, subject to the refutations and adjustments that emerge in the everyday processes of interaction' (Clark and Soulsby 1998: 32). It has also been pointed out that it is only due to the objectification that actors are usually unaware of societal embeddedness:

Over time, the social reproduction of concrete relationships becomes regularised, and stable patterns of embeddedness become institutionalized. [...] [S]ocioeconomic structures of relations take on characteristics of historical "naturalness", become imbued with cultural and customary significance [...] and become resistant to change under normal circumstances (Clark and Soulsby 1998: 32).

This case study of state socialist organising logics in post-communist Central European automotive plants has confirmed both arguments. First, it has confirmed that societal embeddedness, when conceptualised at the level of organising logics, is a process full of tensions between different organising logics, where the existing organising logics evolve

and sometimes re-emerge in new forms. Second, the study has also confirmed a strong continuity of societal embeddedness, as the three non-economic enterprise organising logics have been preserved despite important institutional changes.'

Emphasising the normative dimension of societal embeddedness has proven to be especially useful for the neo-institutional literature that studies rapid institutional change. Institutional change is a complex process and it is only recently that neo-institutionalism have begun to address the difficulty of conceptualising institutional change (Thelen 2004; Streeck and Thelen 2005). This study has suggested a further variable that needs to be considered more seriously in order to overcome this inherent difficulty. When institutions such as firm governance or work organisation are transforming in such a fast and profound way that actors are rule-takers and rule-makers at the same time, it is inherently difficult to disentangle the causal link between these institutional changes and the actors' behaviour. This is why recourse to more continuous and stable organising logics can be useful. This study has attempted to show that at least for periods of rapid institutional change, as have been seen in Central and Eastern Europe since the early 1990s, it is sometimes more useful to consider more profound organising societal logics rather than focus solely on institutions.

This study has also confirmed the role of the 'host country' effect addressed in business studies literature. When discussing the transfer of managerial practices from the headquarters to subsidiaries this literature underlines the role of local actors (Kristensen and Zeitlin 2005; Meardi 2006). It questions the possibility of an unambiguous transfer and underlines the role of 'host-country effects' in the adoption of new work practices and in labour responses to broader managerial strategies (Greer and Hauptmeier 2008). Similarly, this study has relativised the concept of a 'transfer'. The general point confirmed by this case study of the VW subsidiaries in Central Europe is that the transfer of institutional practices is always at best only partial. I have shown that Central European post-communist production and work practices have not been a *tabula rasa* where West European practices could be imposed or copied without restraint, but that the adoption of new organising logics in business, work and production has been a process strongly influenced by local actors and local institutional and normative factors.

Although societal re-embedding is by definition always specific and context-dependent, certain commonalities could be identified in the relationship between enterprise organising

logics and institutions. Thus, in the four automotive plants studied, a strong industrial upgrading took place showing that, among other factors, non-economic enterprise organising logics have been an important driver for industrial modernisation. However, the findings of a similar research project conducted by Morisson (2007) who assessed the transformation of a Russian enterprise during post-communist transition are quite different to those identified in this study. Morisson reports discipline violations, absenteeism, stealing and similar practices that hinder enterprise modernisation. In this context it is important to consider Streeck's argument that points out the importance of institutional legitimacy, a 'normative fit'. Streeck argues that normative discourses that provide legitimacy to institutions 'represent not an alternative to the institutional regulation of capitalism, but a vital pre-condition' (Streeck 2007: 14). Thus, the organising logics in themselves do not 'produce' certain institutional outcomes. What rather matters is the extent to which the reality is perceived by actors as deviating from their organising logics, their logics of appropriateness, and their moral postulates. If what is considered to be appropriate and valuable, on the one hand, and the perceived reality, on the other, significantly diverge from each other and no legitimising discourse is able to bridge the gap, then similar sets of enterprise organising logics can produce different institutional outcomes. This observation helps to explain the findings of Morisson's study (2007). In other words, when enterprise organising logics and mutual obligations between the firm and the workers are violated, the institutional consequences for modernisation and upgrading can be less accommodating. In this study, on the other hand, even if the complex causality of industrial modernisation was not explored in greater detail, the evidence allowed to assume that non-economic organising logics of local actors have been conducive to industrial modernisation of the four VW subsidiaries.

III. State socialist legacies reconsidered

As discussed in the introductory Chapter of this study, state socialist legacies are often perceived as profoundly inappropriate for the newly established modern market economies in Central Europe. When seen through the prism of the Polanyian double-movement, the experience of the post-communist transition and the legacy of state socialism provide a different picture. I have identified a number of non-economic organising logics allowing me to introduce the normative dimension of business and work into the study of societal re-embedding. Deontological ethics and value rationality have remained relevant in post-communist societies despite a strong drive towards economic liberalism and utilitarianism.

The case studies demonstrate how deontological organising logics have been at the heart of societal re-embedding limiting and moderating the expansion of economic liberalism, its institutions and the utilitarian organising logics that these institutions embody. In other words, some state socialist legacies have been conducive to preserving the societal fabric and re-embedding reciprocal social obligations as well as to preventing the logic of economic liberalism from becoming the only dominant logic. Thus, the concept and the evidence of the normative dimension of business and work that this study provides call for a re-consideration of the role of state socialist legacies for contemporary political economy and neo-institutionalism.

State socialist legacies have had a strong impact on both the emergence of economic liberalism, on the one hand, and the societal re-embedding, on the other. The fact that this study has focussed on the latter should not be seen as my desire to glorify state socialism in any way. This focus was motivated rather by the desire to re-balance the public and academic debate that largely sees state socialist legacies as negative and as obstructing modernisation in post-communist societies. The three enterprise organising logics considered with in this study certainly do not represent all the organising logics that have been important to local enterprise stakeholders. As discussed in Chapter I, nationalism can be another non-economic organising logic. In the field of work and production, it takes the form of 'economic nationalism' i.e. a mutual obligation to act in the national interest, but sometimes it simply becomes an anti-foreigner sentiment – depending on whether it adopts the civic or an ethnic orientation (Greenfeld 2003). This study has focused on those three logics that have constituted a puzzle of surprising continuity: despite the dramatic institutional changes that took place in many areas - firm governance and welfare benefits, firm performance measures, as well as in work organisation and managerial practices - enterprises continue to function as authoritarian paternalists, as sources of competitive industrial capabilities and as discretionary bureaucracies, although in a reconfigured form.

Yet there is one further, more general reason that the study of the Central European transition countries is a fascinating field not only for area study scholars but also for those interested in the nature of modern capitalism, economic modernisation and the modernity of Western liberal democracy at large. Value rationality is an important variable that the study of post-communist transition helps re-discover. The understanding of Western modernity is driven by the concepts of pluralism and rationality that do not explicitly deal

with the questions of ethics or normative frameworks. The start of the Western modernity is usually situated in the French Revolution and the age of the Enlightenment.

[T]he threshold of modernity may be marked precisely at the moment when the unquestioned legitimacy of a divinely, preordained social order began its decline' (Eisenstadt 2000: 4).

Modernity is conceptualised as the autonomy of men that implies reflexivity and the active construction of social life:

This project of modernity entailed a very strong emphasis on the autonomous participation of members of society in the constitution of the social and political order, on the autonomous access of all members of the society to these orders' (Eisenstadt 2000: 5).

Yet Western modernity has been characterised by a rationality that is increasingly consequentialist i.e. in which the behaviour is oriented towards calculated expected utility rather than an identity-based logic of appropriateness (March and Olsen 2004). As discussed in Chapter II, the term 'the logic of appropriateness' introduced by March and Olsen comes close to the concept of social embeddedness that this study uses. The societies and governance systems in liberal democracies have come to see themselves as 'a community of shared objectives rather than a community of shared rules, principles and procedures' (March and Olsen 2004: 18). Even if Western European intellectual tradition has included great thinkers from Kant to Foucault who have dealt extensively with issues of morality and ethics, more recently this tradition seems to have become less popular as 'rationalistic' arguments seem to prevail (Norris 1993) in modern social sciences.

The normative dimension of intellectual activity in the East was disregarded by Western social sciences scholars not only before the regime change in Central Europe but also after; conflicts concerning truth and authenticity seemed old-fashioned and unsuitable for modern political programs (Auer 2004). Yet different ethical motives and logics of rationality co-exist creating a tension between different motives for individual and collective action. In the re-united Europe today social scientists can learn from state socialist legacies and the post-communist transformation. First, they can learn from state socialist legacies. The state socialist system was characterised by an 'intrusion' of politics and ideology into the system of production and work. As a consequence, totalitarian and semi-totalitarian regimes made individuals in state socialist societies more sensitive to the issues of self-analysis and

normative appropriateness (Kharkhordin 1999). Bryant and Mokrzycki argue that ‘[t]he feeling of living in a sham society was overwhelming in Eastern Europe before 1989’ (Bryant and Mokrzycki 1994: 7). Auer introduces the notion of anti-politics. As the sphere of production was subordinated to the system of administrative control, the attitude of anti-politics emerged out of suspicion of the communist state and of the official ideology; it was cautious towards all types of dogmatic political ideologies, any teleological set of values (Auer 2004). Auer explains that anti-politics did not mean to be apolitical, quite the contrary – the ‘personal became political’:

by liberating individual from the constraints of institutional politics and the schematic thinking imposed by abstract ideological frameworks, individual were empowered to endow their actions with authentic meaning (Auer 2004: 8).

The experience of state socialism also teaches us that if there is a strong imbalance towards the utilitarian logic or instrumental rationality in one sphere of life, another sphere will tend to be dominated by value rationality or deontological ethics. Thus, during the totalitarian and semi-totalitarian rule of state socialism that prescribed the teleological goal of the future communist regime, ethical questions still mattered, but they were ‘banned’ into the sphere of personal life. Concepts such as truth, deceit and authenticity were central to the dissident movements in the Soviet Union’s field of influence (Thaa 1996). Auer argues that:

The likes of Václav Havel in Czechoslovakia, Adam Michnik in Poland and György Konrád in Hungary saw their struggle against the omnipotent communist state as an ‘anti-political’ struggle for authenticity, not a fight for political power. In line with this, they were reluctant to ally themselves with clearly defined ideological positions. Instead, they appealed to a set of basic human values, assuming that a regime built on hypocrisy, greed and conformism could be defeated by truthfulness and a sense of basic human decency (Auer 2004: 2).

And even recently, issues of morality still attract the interest of researchers with the experience of state socialism and post-communist transition. Thus, a recent contribution to this topic has been a book by the East German author Wolfgang Engler (2009) who explores the historical emergence of concepts of authenticity and truth in capitalist societies.

Second, the post-communist transformation represents a period when stakeholders are especially sensitive to the underlying values and organising logics inhabiting their business and work practices. The post-communist era has been the period when established and

objectified values and organising logics were questioned and sometimes reconsidered by the stakeholders.

In post-communist societies undergoing fundamental institutional changes, the relative stability, legitimacy and coherence of prior management practices have lost their taken-for-grantedness, posing fundamental questions about the nature of management and managers – regarding the adequacy of the values and ideas which give rationality and legitimacy to managerial work [...] (Soulsby and Clark 1996: 235).

The capitalist liberal democracy of the late 20th - early 21st centuries is characterised by strong ideological allegiances disappearing and party political delineations becoming less and less clear. As far as intellectual traditions in social sciences are concerned, this concluding Chapter has argued that ethical behavioural motives and normative frameworks should be given a greater consideration as they have been neglected in the current neo-institutionalist literature. In other words, sensitivity to the normative dimension of individual and collective action could possibly be another legacy of state socialism that neo-institutionalism should better not ignore. The old Weberian distinction between different rationalities - different organising logics of business and work - may be 're-discovered' not only in the neo-institutionalist literature but also in other related disciplines such as organisational studies and economic sociology. Furthermore, studying the variety of context-dependent behavioural motives may also be relevant for other socio-economic contexts, industries and dimensions of work life. If acknowledged, the inherent tension between the professional ethics and deontological organising logics, on the one hand, and instrumental calculative organising logic, on the other, may be a source of creativity and progress. After all, already Weber had pointed out that there is always a part of our life that does not conform to instrumental rationality and to cost-benefit calculations and it is on the preservation of these values that the instrumental rationality of the rest of the system depends.

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Annex

Interviews Czech Republic December 2006

Date	Person	Position	Affiliation
11.12.06	Lenka Bila	Coaching Department	Škoda Auto, Mladá Boleslav
11.12.06	Mr. Hamacek	HR Director, management issues	Škoda Auto, Mladá Boleslav
12.12.06	Mr. Nanasi	Industrial engineering	Škoda Auto, Mladá Boleslav
12.12.06	Mr. Vacek	Director of motor production	Škoda Auto, Mladá Boleslav
12.12.06	Pavel Radda	Director of the car production	Škoda Auto, Mladá Boleslav
12.12.06	Mr. Podhaisky	HR Director, collective agreements	Škoda Auto, Mladá Boleslav
13.12.06	Zdenka Mansfeldova	Researcher	Institute of Sociology, Academy of Sciences, Prague
14.12.06	Mr. Dolezal	International affairs	Czech Automotive Association, Prague
14.12.06	Robert Pilous	Director	Czechinvest, Investment Development Department, Prague
15.12.06	Ivan Voles	Deputy Secretary	Economic Chamber of the Czech Republic, Prague
18.12.06	Mrs. Shramova Zdenek Halir	Finance Division and Controlling	Škoda Auto, Mladá Boleslav
19.12.06	Josef Stredula Bretislav Witwer Lucie Studnicna	President Chairman of the OS KOVO Automotive section	OS KOVO, metalworker union, Prague
19.12.06	Oldrich Körner	Deputy Director of Economic and Environmental Policy	Confederation of Industry, Prague

20.12.06	Mrs. Erbenova	Board member, labour economist	Czech Central Bank, Prague
20.12.06	Lenka Dokulilova, Ales Kroupa, Mr. Hala	Researchers	RILSA, Institute for Labour and employment studies, Prague

Interviews Poland March 2007

Date	Person	Position	Affiliation
06.03.07	Bogdan Szozda	President of national automobile section	Metalworker Section of Solidarność trade union, Warsaw
	Franciszek Piotrowski	President of the plant trade union in DAEWOO-FSO	Metalworker Section of Solidarność trade union, Warsaw
	Mr. Mcher	Vice-president of national section of automotive industry NSZZ Solidarność, DAEWOO-FSO	Metalworker Section of Solidarność trade union, Warsaw
07.03.07	Rafal Orlowski	Director	Chamber of Automotive Industry, Warsaw

Interviews Slovakia March 2007

Date	Person	Position	Affiliation
13.03.07	Eva MERNÍKOVÁ Matej STUŠKA	Desk officer Desk officer	American Chamber of commerce, Slovakia, Bratislava
13.03.07	Jur Pal'a	Director of European Union Department	Slovak Chamber of Commerce and Industry, Bratislava
15.03.07	Mr. XXX	Director for production aggregates and modules	VW Slovakia
15.03.07	Mr. Wojnar	Finance Director, Sup. Board	VW Slovakia
15.03.07	Mr. Kern	Executive director	German-Slovak Chamber of Commerce
16.03.07	Maria Petrova	Vice-president	Trade union OZ KOVO in VW Slovakia
16.03.07	Mr. Jasicek	Director Purchasing Department	VW Slovakia

19.03.07	Stanislav Sasinek Daniel Hrdina	Office Director Expert International Affairs and Transport	Association of Employers of Transport Post Offices and Telecommunications of the Slovak Republic
19.03.07	Mr. Zeller	Director, Industrial Engineering	VW Slovakia, Devínska Nová Ves
19.03.07	Mr. Langfelder	Director, New Projects SUV	VW Slovakia, Devínska Nová Ves
19.03.07	Mr. Holecek	Supervisory Board Member, HR	VW Slovakia, Devínska Nová Ves
20.03.07	Anton Mifka	Vice President Int. Affairs	OZ KOVO Metalworker union, Bratislava
20.03.07	Peter Ostrice	Project manager, FDI Division	SARIO, Slovak Investment agency, Bratislava
20.03.07	Novakova Robert Stano	Secretary general Foreign Relations	Automotive Industry Association Of Slovak Republic Secretariat, Bratislava
21.03.07	JUDr. Maria Buchtova	Director of Labour Legislation Department	Ministry of Labour, Bratislava
21.03.07	VL. Kalina	Secretary General	Association of the Electro Technical Industry of Slovakia, Bratislava
22.03.07	Mr. Berith	Secretary General	French-Slovak Chamber of Commerce, Bratislava
22.03.07	Irenej Denkocy	Administrator	Chemical and pharmaceutical industry association, Bratislava
22.03.07	Ladislav Uncovsky	Executive Director	Slovak Banking Association, Bratislava
23.03.07	Maria Petrova	Vice-president	Trade union OZ KOVO in VW Slovakia, Devínska Nová Ves

Interviews Poland April 2007

Date	Person	Position	Affiliation
10.04.07	Jan Rafalowski	Advisor to Deputy Secretary General Mr. Jerzy Wezyk	Polish Chamber of Commerce, Warsaw

10.04.07	Mr. Segers	Responsible BPO	PAIZ, Polish Investment Agency, Warsaw
11.04.07	Mateusz Zakolski	Working Group National Insurance	PKPP Lewiatan, Employer association, Warsaw
11.04.07	Marco Walde	Responsible Services for Investors	Polish-German chamber of industry and commerce, Warsaw
11.04.07	Grzegorz Nowak	Director	ZPM, Domestic Employers Auto Association, Warsaw
12.04.07	Wojtek Drzewiecki	Director	SAMAR, Automotive Market research institute, Warsaw
12.04.07	Jakub Farys	Director	PZPM, Private Employers Auto association, Warsaw
14.04.07	Alfred Konowrocki	Ex- president of national automotive section	Solidarność, VW Poznan
14.04.07	Mr. XXX Presentation during VW Poznan plant visit	Director of Human Resources	VW Poznan
16.03.07- 20.04.07	Clemens Rode	Coordinator for Labour relations and Social Dialogue in CEE	Friedrich Ebert Stiftung, Warsaw
16.04.07	Romuald Wojtkowiak	President	OPZZ Metalowcy, Warsaw
16.04.07	Mr. Malinowski Mr. XXX	President Desk officer	Confederation of Polish Employers KPP
19.04.07	Adam Ditmer	President	Solidarność Metalowcy, Katowice
19.04.07	Slawomir Cibiera	Union leader GM Poland	Solidarność Opel GM, Poland

Interviews France June 2007

Date	Person	Position	Affiliation
13.07.07	Aurelie Boitel	Desk officer for Germany	UIMM, French association of automotive producers, Paris

Interviews Slovakia August 2007

Date	Person	Position	Affiliation
16.08.07	Anton Mifka	Vice President	OZ KOVO Slovakia, Bratislava
16.08.07	Zuzana Mikulášová	Head of Project Development Department, SARIO	Slovak Investment and Trade Development Agency, Bratislava
17.08.07	Jan Jankovič	President	OZ KOVO, VW Bratislava, Devínska Nová Ves

Interviews Hungary August 2007

Date	Person	Position	Affiliation
28.08.07	Mr. Kelemen	Audi Gyor Betriebsrat Betriebsratvorsitzender	AUDI HUNGARIA MOTOR Kft., Györ
	Mr. Kiss	VASAS Trade union, Audi Hungaria	
	Sandor Nemeth	Independent Trade union, Audi Hu	
28.08.07	Lujza Radi	Human resources, Director for work issues	AUDI HUNGARIA MOTOR Kft., Györ

Interviews Belgium October 2007

Date	Person	Position	Affiliation
18.10.07	Gérald Audaz	Policy Adviser	European Metalworker Federation, Brussels
18.10.07	Peter Scherrer	General Secretary	European Metalworker Federation, Brussels

Interviews Hungary June 2008

Date	Person	Position	Affiliation
19.07.08	Mr. Bogdanovits	Director	Association of the Hungarian Vehicle

			Component Manufacturers (MOSZ), Budapest
19.07.08	Dirk Wölfer	Corporate Communications	German-Hungarian chamber of industry and commerce, Budapest
20.07.08	Sándor Csurgó Zoltán Szöke	International affairs Responsible for the automotive sector	Vasas trade union International relations, Budapest
20.07.08	Laslo Naumann	Researcher	The Institute for Social Policy and Labour, Budapest

Interviews Hungary September 2008

Date	Person	Position	Affiliation
24.08.08	Erika Mezei	Trade union official	Vasas trade union, Budapest
24.08.08	Laslo Naumann	Researcher	The Institute for Social Policy and Labour, Budapest

Interviews Hungary December 2008

Date	Person	Position	Affiliation
11.12.08	Sándor Csurgó Mr. Mezo	Trade union official; international affairs Trade union official	Vasas trade union, Budapest