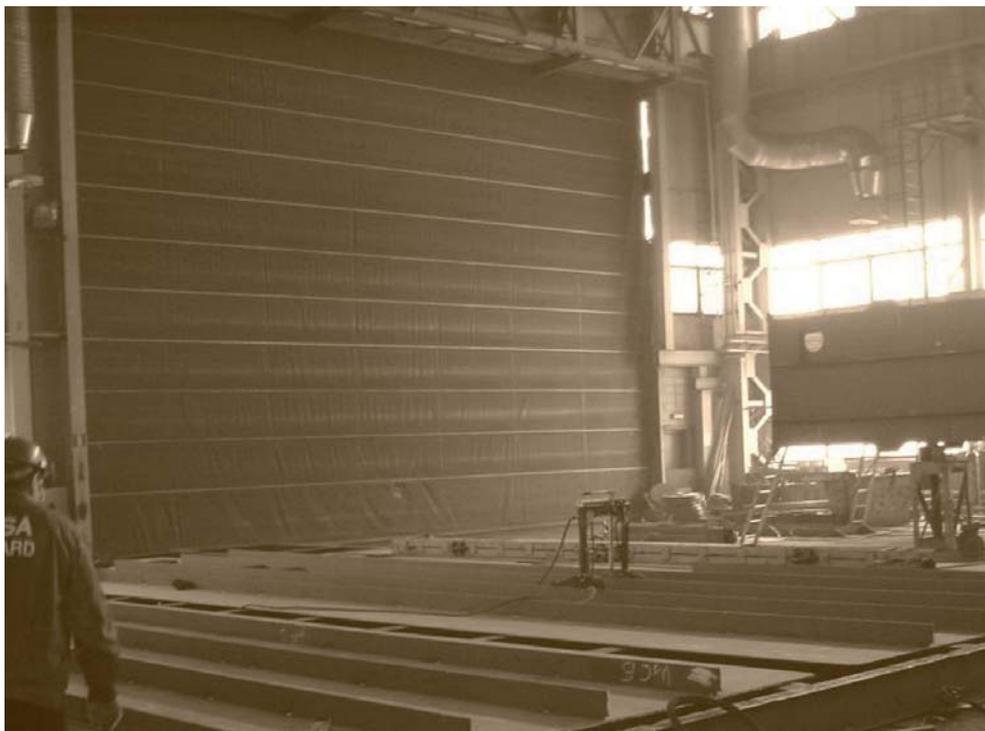


Markku Sippola

A Low Road to Investment and Labour Management?

The Labour Process at Nordic Subsidiaries
in the Baltic States



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UNIVERSITY OF JYVÄSKYLÄ

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Cover picture by Markku Sippola, A view of the shop floor at an engineering shop located in one of the Baltic States

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ABSTRACT

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Diss.

This research examines the position of Baltic production units and workers in Nordic manufacturing value chains, as well as the role of Nordic FDI and managerial strategies in shaping this position. It also investigates the effect of post-Soviet organisational and labour market characteristics on the labour process at Baltic plants. The research involves case studies in twelve Nordic subsidiaries in Baltic manufacturing, of which six subsidiaries had unions during the fieldwork in 2004-2006. This research confirms the unequivocally peripheral position of Baltic units in spatially dispersed production processes, irrespective of managements' motives for investment in the first place. Taylorist organisation of work associated with direct managerial control over the labour process is articulated not only in handwork or Fordist assembly line production, but this is pervasive across all types of production including engineering shops and seasonal production. Some variation in the position of the worker occurs, however, in engineering shops and process production, indicating that management to some extent utilises internal labour markets. The most robust employee relation systems are found in those which workplaces have retained from Soviet times. Besides affording few possibilities for Baltic workers to participate at greenfield plants, Nordic manufacturers have adopted the 'low road' to investment and development in their Baltic units. Investors coming from CME environments do not automatically start upgrading the production process in the LME context. These findings call for Baltic States to assume a more active role in promoting R&D, skills upgrading and longer-term investment in human resources.

Keywords: Baltic States, foreign direct investment, labour process theory, manufacturing, Nordic countries, post-Soviet enterprises, subsidiary role

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FOREWORD

Dissertation writing has been an intellectual exercise for me. I have gained a better knowledge about three small neighbouring countries, as well as the differences between industrial relations in those countries and my home country. Most of the time the work has been fun, but sometimes also wearying. I have never had an opportunity to do this job as my main duty, eight hours a day, five days a week, at any time of the thesis work but I needed to put some extra effort to this alongside of my daily work or home duties. While the goal of the completion of my dissertation has always been clear in my mind, the job would have left undone without precious help and incentives offered by various individuals and organisations.

First of all, I would like to thank my financiers. The Nordic trade union federations in the food, metal, chemical, paper, textile, building and wood sector provided the research with funding during the preliminary phase while collecting the background data from August 1, 2004 till June 30, 2005. Many thanks to Jyrki Raina (that time general secretary of Nordiska Metall and later of Industrianställda I Norden) for help in making initial contacts with the federations. The Finnish Work Safety Fund (Työsuojelurahasto) granted an award for carrying out the study in 2005-2006 and for the completion of the dissertation in 2008-2009. The People's Educational Fund (Kansan Sivistysrahasto) and the University of Jyväskylä also supported me financially.

A few academics have acted as my supervisors during the dissertation writing. At the University of Jyväskylä, Professor in Social Policy Risto Heiskala, Academy Research Fellow Jouko Nätti and Docent Raija Julkunen have acted as supervisors for my post-graduate studies. Professor of Labour Studies at the University of Glasgow, Charles Woolfson (who acted as Marie Curie Chair and EuroFaculty Professor at the University of Latvia during my fieldwork) consented to offer his services as an *in situ* assistant supervisor as well as Dr. Nathan Lillie, Research Fellow at the Helsinki Collegium for Advanced Studies. Each member of this 'team' has contributed in a way of their own to the shape of this thesis. Risto Heiskala was the one who first recommended me to become acquainted with Michael Burawoy's theses. Jouko Nätti advised me to employ labour process theory. Meetings with Charles Woolfson in the Baltic States always offered me new perspectives to the work. Nathan's help has been extremely valuable ever since I met him for the first time in spring 2006. Besides offering a possibility to work for his research project - closely related to my post-graduate studies - he has given much theoretical insight into the theme of labour processes.

I would like to express my special gratitude to Raija Julkunen. She served as a source of inspiration theoretically and also helped me to understand complex phenomena of industrial relations whenever we met at the University of Jyväskylä. It has been my pleasure to share many common moments and views during the dissertation writing. I am especially proud of the dedication

she wrote on the book she published in 2008 (*Paradoxes of new work*) which she handed over to me: "To the continuer of labour process research".

The fieldwork has been carried out from the direction of Finland to the Baltic States, but also based in Pärnu, Estonia. The Pärnu College, an affiliate unit of the University of Tartu, provided me a working room in May-July 2005. Thanks to Garri Raagmaa, Rector of Pärnu College, for offering this possibility. As regards other Baltic assistance for this project, the translators (Egle Jaugiene and Ivo Majors) have contributed a lot to this study not only by translating documents and interviews but also by giving their insights and opinions on the approach to companies. Though I know Russian well enough to carry out interviews at Russian-speaking sites in the Baltic States, I needed help from local translators in Latvia and Lithuania.

For improving the language, I am particularly grateful to Lisa Marika Jokivirta. Without her (and her colleague's) apt and accurate notions my text would not have looked as it does at the moment. I have got plenty of useful feedback during the proof-reading process. Moreover, the final product would not have looked like it does without the accurate and exact comments by the reviewers, Professor Pertti Koistinen of the University of Tampere and Senior Researcher Jouko Nikula of the University of Helsinki. Marja Järvelä, Professor in Social and Public Policy at the University of Jyväskylä, has read all the drafts of my manuscript, and given me valuable comments.

To my wife Virpi, and two sons Elia and Ilmari, I am grateful for their patience and also for the inspiring atmosphere they created during dissertation writing. Virpi has not asked: "Why, is it necessary?" at any time during this process but instead encouraged: "Do it, if you think it is necessary". Most of the time I have written the thesis, I have also taken care of my children. Also, when conducting the fieldwork in the Baltic States in 2004-2006, my family has been with me and we have jointly enjoyed the travelling and visiting these countries. I was most impressed by the time spent in Pärnu in the summer 2005 with my wife Virpi and son Elia. This 'work group' gave me most invaluable encouragement during these years.

Joensuu, November 17, 2009

Markku Sippola

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ABBREVIATIONS

AWG	Autonomous Working Group
BWEL	Baltic Working Environment and Labour survey
CBA	Collective Bargaining Agreement
CEE	Central and Eastern European
CEO	Chief Executive Officer
CIS	Commonwealth of Independent States
CME	Coordinated Market Economy
CNC	Computer Numeric Control
DC	Direct Control (applied only in this thesis)
EAKL	Estonian Confederation of Trade Unions
ECJ	European Court of Justice
EEA	European Economic Area
EI	Employee Involvement
EMSA	Estonian Seafarers' Union
EPOC	Employee Participation in Organisational Changes
ESLY	Finnish-Estonian Business Managers' Society
ETTK	Estonian Employers' Confederation
EU	European Union
EWC	European Works Council
EWCS	European Working Condition Survey
FDI	Foreign Direct Investment
FICE	Foreign Investors' Council in Estonia
FSU	Former Soviet Union
GDP	Gross Domestic Product
GRI	Global Reporting Initiative
H&S	Health and Safety
HPWO	High Performance Work Organisation
HPWS	High Performance Work System
HQs	HeadQuarters
HR	Human Resource
HRM	Human Resource Management
ILO	International Labour Organisation
IMF	International Monetary Fund
JIT	Just-In-Time
LATIA	Lithuanian Apparel and Textile Industry Associations
LBA	Latvian Construction Contractors' Association
LBAS	Free Trade Union Confederation of Latvia
LCA	Latvian Builders' Trade Union
LDF	Lithuanian Labour Federation
LDDK	Employers' Confederation of Latvia
LDLP	Lithuanian Democratic Labour Party
LIPSP	Law on the Initial Privatisation of State Property

LIZDA	Latvian Education and Science Workers' Trade Union
LME	Liberal Market Economy
LPSK	Lithuanian Trade Union Confederation
LPUF	Latvian Federation of Food Enterprises
LSDSP	Latvian Social Democratic Workers' Party
LTL	Lithuanian lit (currency)
LO	<i>Landsorganisation</i> (confederation of Danish/Norwegian/Swedish trade unions)
LP	Labour Process
LPT	Labour Process Theory
M&A	Mergers and Acquisitions
MNC	MultiNational Company
NGO	Non-Governmental Organisation
OECD	Organisation for Economic Co-operation and Development
PHARE	<i>Pologne-Hongrie: assistance à la restructuration des économies</i> [EU aid programme directed at CEE countries from 1989]
PPP	Purchasing Power Parity
QWL	Quality of Working Life
RA	Responsible Autonomy (applied only in this thesis)
R&D	Research and Development
SAF	Federation of Swedish Industries
SAK	Suomen Ammattijärjestöjen Keskusyhdistys (Finnish Confederation of Trade Unions)
SME	Small and Medium-sized Enterprises
SN	<i>Svenskt Näringsliv</i> (Confederation of Swedish Enterprise)
SSIP	Social System of Innovation and Production
SU	Soviet Union
TALO	Estonian Employees' Unions' Confederation
TNC	Trans-National Company
TQM	Total Quality Management
TU	Trade Union
VAT	Value-Added Tax
VGMK	Business Work Partnerships within the Enterprise
VoC	Varieties of Capitalism

1 INTRODUCTION

In 2003, the Estonian Investment and Trade Agency published a leaflet titled: "How did John get his money back in one year?" as part of a programme promoting business and regional policies in the country. A reader could easily gain an understanding of how quickly John, a Scottish investor, earned profits from his electronics assembly business. "Much to our surprise," John says, "by the end of year one, we had already earned a complete pay-back on our investment - we expected it would take much longer." The tone here suggests that Estonia is an ideal destination for foreign direct investment with its well-educated but cheap and flexible labour force. In fact, at the beginning of the 2000s, there was a myriad of similar stories depicting the Baltic States as a location in which investors can gain big profits with ease. Although this excerpt aptly exemplifies capital's intrinsic compulsion to accumulation, it exhibits investment as a coherent strategic action in too simplistic a manner. The company headquarters make decisions on investment, keeping in mind business objectives related to markets, production and technology. There may be investment incentives that are not only aimed at efficiency but also at acquiring a larger share of emerging markets, strategic assets or access to scarce resources.

The Baltic States have shown good management skills in providing stability and dynamism in their national economic policy-making. This has proved to be important for attracting investors from abroad, and consequently, foreign direct investment (FDI) results have been excellent in Estonia and fairly good in Latvia and Lithuania (Tiusanen 2004, 3). The impact of Nordic capital is considerable and it has gained a strong foothold in the Baltic business environment. Around half of the FDI stock originated in Nordic countries in 2002 (Hunya 2004a). In the post-Soviet transitional markets, the Nordic investor may regard its Baltic workforce as a skilled one that can be treated as 'core' labour used to perform craft jobs, or alternatively, as an unskilled one that can be easily trained in a short period of time to carry out routine operations. One could assume that Nordic manufacturers would opt for the former 'road' which would lead to upgrading production processes and relocating research and

development (R&D) to the Baltic countries, as Baltic labour has been considered as skilled and highly qualified by many accounts.

Nevertheless, this dissertation will confirm the opposite and reinforce the idea of the division of labour between the Nordic “core” and the Baltic “periphery” with respect to labour conditions and status in the whole value chain. Thus, a strong emphasis on FDI has not proven to redeem the Baltic national economies of Soviet-type Taylorism or end their course as a site of downgraded production with low levels of productivity. It is a fact that the relocation of production from Nordic to Baltic countries concerns the lower-tier part of the process or extension of standardised production.

The division of workers’ status between Nordic and Baltic parts of the production process is examined here by analysing the strategic patterns of Nordic investment and labour management and the way the work is organised. By examining the constraints of the product market and the opportunities of the labour market, this research seeks to combine an actor-centered perspective from the headquarters (i.e. FDI motives, roles of subsidiary) with the *labour process*¹ theory. Three questions are raised. First, what is the position of the Baltic worker (in terms of employee relations, worker autonomy and control) in the labour process in Nordic manufacturing companies? Second, what is the effect of the Nordic headquarter’s investment strategy (i.e. investment motive and the role of subsidiary) on the labour process in the subsidiaries? And third, what is the impact of post-Soviet organisational and labour market characteristics (Taylorist work organisation with relatively high degree of autonomy, tight labour market and an abundance of an unskilled, female, Russian-speaking labour force) on the shape of the labour process at Baltic plants? This also contributes to attempts at renewing the labour process theory and moving in the direction of considering fragmented labour processes (Julkunen 2008b).

The strategic behaviour of Nordic headquarters and its consequences for the labour process are best understood in terms of *control*. While the main business goal remains increasing company profits, business strategies are geared towards establishing structures of control at work (Edwards 1979, 16). By definition, FDI decision-making itself aims at acquiring or maintaining control of productive assets for the parent company (Moosa 2002; Harzing 2004). Therefore, the ultimate hypothesis is that the Nordic manufacturer is seeking control over the entire production process when making decisions on foreign direct investment. The manufacturer enters the Baltic soil wishing to acquire a tighter grip of the labour process, and to re-negotiate the ‘frontier of control’, which has been ‘biased’ towards the employees’ side in the Nordic countries.

This research attempts to increase knowledge on issues that have thus far been overlooked in the Baltic context. There is no previous research on this

¹ Michael Burawoy (1979, 15) defines the labour process as follows: “[T]he relations of production are always combined with a corresponding set of relations into which men and women enter as they confront nature, as they transform raw materials into objects of their imagination. This is the *labor process*.”

particular topic. However some related studies exist. Epp Kallaste and Krista Jaakson (2005) have investigated processes of information and consultation in eight case companies in Estonia. Recent Working Life Barometers by Juha Antila and Pekka Ylöstalo (2003) and by the research institute Saar Poll (Working Life Barometer 2005) have shed light on the situation regarding the Baltic labour market. Sturle Jensen (2003) has examined Baltic corporatist arrangements, whereas Gabor Hunya (2004a) has discussed the position of the Baltic States as a target of foreign direct investment. Grigor Gradev (2001) has contributed greatly to research on EU companies' entry into the Central and East European market and its implications on industrial relations. In regards to geographical accounts, most of the existing research is focused more on the national level and on the development of industry, labour markets, trade or FDI rather than being concerned with the study of social relations (Pickles 1998, 173). The present study consciously strives to connect geographical accounts and the development of labour markets and industries with the scrutiny of social relations of production.

1.1 Theoretical basis

The institutional framework of this study is based on the *varieties of capitalism* (VoC) paradigm and the regulationist idea of flexible accumulation. In regards to the VoC theory, it is a relatively easy task to slot Nordic and Baltic countries into their corresponding categories. According to the framework laid down by Hall and Soskice (2001, 19-21), all of the Nordic countries can be classified as coordinated market economies (CMEs), whereas, for instance, the USA, the UK and Ireland are considered liberal market economies (LMEs). LMEs rely on markets to coordinate financial and industrial relations systems, while CMEs foster institutions that have influence on both spheres, leading to higher levels of non-market coordination. The Baltic States, on their part, represent LMEs rather than CMEs, while the clearest difference between Baltic and Nordic countries lies in labour regulation and industrial relations.

The whole circuit of capital is presently understood (within the existing literature) in terms of *flexible accumulation*, which allows capital to switch investment according to market initiatives. Under the regime of flexible accumulation, "globalisation has transferred some of the capital intensive production that was once situated in the capitalist core nations, into the peripheral nations of the world system" (Rojek 2004, 55). Contrary to the traditional form of 'market despotism' where individual workers were vulnerable in the labour market, the collective worker is now viewed as vulnerable, although the fear of being fired has been replaced by the fear of capital flight, plant closure, the transfer of operations, and disinvestments.

Since the beginning of this research in 2004, the main focus has shifted from the study of trade unionism in the Baltic States to the power relations on the shop floor. This explains my increasing interest in the labour process theory.

I was ready to accept the critical approach to the labour process in the Baltic States, as I realised that although there were causes for conflict, the outcomes still showed a high degree of consent at the subsidiaries. My initial interest in institutions such as trade unions gradually evolved into a scrutiny of the dynamics of the shop floor. The question as to whether there was a union at the subsidiary or not became a secondary focus. There appeared to be much contingency in the presence of trade unions in the subsidiaries and in my opinion, the action of managers (or non-action of workers) contributed to the labour process and managerial control.

As my theoretical thinking has developed, classic accounts of industrial sociology, such as P. K. Edwards's and Hugh Scullion's *The Social Organisation of Industrial Conflict* (1982), and Michael Burawoy's *Manufacturing Consent* (1979) and the *Politics of Production* (1985) have helped me to gain a deeper insight into the dynamics of the labour process. I was not able to conduct as in depth an ethnographic account as Burawoy, Edwards and Scullion, but these works helped me to better understand the 'on the ground' reality of the shop floor. I was also influenced by Raija Julkunen's *Työprosessi ja pitkät aallot* (The labour process and long waves, 1987), and as a result, I became aware that typically US or UK based accounts of the labour process are applicable to the Nordic context as well, and that the capitalist labour process has undergone a significant transformation through the years.

Although there is a single labour process theory that defines the attributes of the labour process and governs its theoretical variation (Julkunen 1987, 378), there are also various modes of the labour process. It is sometimes difficult to address *the* labour process, since the degree of direct authority varies from industry to industry (Burawoy 1981). In considering the labour process in different contexts (Chapter 2), I have chosen to speak about 'modes of the labour process' as it varies from one mode of regulation to another. I will continue the examination beyond the labour-capital relation to consider other moments in the circuit of capital (Kelly 1985, 33). A compulsion to capital accumulation drives employers to reduce their unit cost of labour and to develop and maintain systems of control over labour (Lane 1989, 26). The same search for control remains irrespective of sector and the constant strive for profitability impels capital to transform and control the labour process (Edwards 1979, viii; Thompson 1983, 23).

As modern-day production disintegrates, some fragments of the production process are treated as mobile. In regards to certain 'fractions of capital', the social and political costs of uprooting from a local labour process regime can outweigh the economic cost gains of relocation, although *mobile fractions* are more inclined to smooth the inter-locality flow of investment (Jonas 1996). In Nordic countries, the historical trajectory of work organisation and the labour movement has led to a high degree of flexible specialisation and employee participation, but they have not remained immune to the reorganisations caused by global pressures. The 'mature' economies of Western and Northern Europe seek comparative advantage by relocating the low-cost

labour manufacturing operations close to home. Aside from assessing Nordic industrialists' strategies to either re-commodificate or de-commodificate Baltic labour, this research aims to provide a more holistic picture of post-Fordist capital accumulation. The overarching objective is to gauge the direction in which the labour process (including the production stage located in the Nordic country) is headed.

1.2 The Baltic States

Estonia, Latvia and Lithuania definitely possess peculiarities of their own and one could argue they should not be united under the same denominator. Latvia has a strong regional identity, Estonia considers itself mainly a Nordic country and Lithuania would like to be a part of Central Europe due to historic ties to Poland (Hunya 2004a, 93). But there are common traits. Hood et al. (1997, 4) point out that the image of peasant lifestyle and the value of the countryside in general are a source of national values, resulting in a distinctive work ethic and outlook on the part of the majority of the middle-aged and elderly people. Furthermore, there are similar historical trajectories. Although Lithuania may have been regarded as a "superpower" from the fourteenth to sixteenth centuries while Estonia and Latvia (Livonia, at that time) were subjected to the Teutonic order, recent history shows many similarities between the three countries due to the fact that all of them belonged to the Soviet Union. Furthermore, they have legacies of the Soviet Union's centralised party and trade union system, as well as manipulative ideology (or non-ideology).

Aside from religious differences (Catholicism is dominant there whereas Estonia and Latvia are more related to Lutheran traditions) Lithuania also differs from Estonia and Latvia in its expectations for the future. According to Blom and Melin (1999, 19), Estonians are optimistic in relation to future prospects, Lithuanians to the past, and Latvians place themselves in the middle. A reason for the more positive outlook of the past among Lithuanian people is due to its easier position during the Soviet rule. Immigration from other Soviet states was not as massive as it was to Latvia and Estonia and its political elite remained clearly more independent from Moscow than in Estonia and Latvia (*ibid*). During the course of the 1990s, observations by Blom and Melin (1999, 19) on economical reforms in the Baltic States found a difference between the Baltic nations in terms of ideology: "Catholicism is of a more anti-liberalistic nature than Protestantism. Perhaps, the spirit of capitalism or economical reforms resembling shock-therapy is a poorer fit for Lithuania than for Estonia."

Baltic nations were democratic civil societies during the period between the world wars (1918-1940), which indisputably distinguishes them from other Soviet republics (Pabriks and Purs 2002, 86). From a societal perspective, the beginning of the 1920s to the early 1930s was significant: Latvia, especially, gained respect for its social insurance programmes, whereas both Estonia and Latvia enacted factory laws favourable to workers with principles of no child

labour, a basic eight-hour working day and good opportunities for advanced education (Palmer 2005, 294). Palmer (*ibid*) further emphasises that “liberals and social democrats in the West optimistically hailed the Baltic newcomers as ‘model democracies’.” These ideals, however, changed into opposite direction: There was a period of authoritarian government in each of the Baltic States during the inter-war period, starting in Lithuania in 1926 when Antanas Smetona backed a Nationalist coup in Kaunas and came to power, followed by the ruling coalitions of Konstantin Päts in Estonia and of Karlis Ulmanis in Latvia in 1934.

The Soviet Union instated a planned command economy of its own in these three countries, whose purpose was towards heavy industrialisation and military objectives, thus setting aside the natural development of the national industries particular to the Baltic States prior to WWII. Nevertheless, the Baltic republics achieved a standard of living that was the highest among republics in the Soviet Union (Lane 2002, 78). Under Soviet rule, all Baltic nations managed to develop a high standard of education and a respectively well-qualified workforce.

Trade relations with Russia dried up temporarily due to the detachment of Baltic nations from the framework of the Soviet system. CEE manufacturing plants were faced with a formidable challenge to survive the collapse of socialism and the simultaneous introduction of market economy rules followed by the liquidation of the central management (Konecki and Kulpińska 1995, 237). In fact, despite having previously been controlled in a highly centralised manner by government institutions that left little room for manoeuvring, post-socialist enterprises faced a totally new competitive environment, pressures of market and competition from abroad.

There was an essential difference between the Baltic and the rest of Eastern European countries in sharpness of reforms. Whereas 1991 saw a complete termination (at least temporarily) of exports to Russia from Baltic enterprises, firms from other CEE countries were able to adapt to the post-Soviet situation gradually. Konecki and Kulpińska (1995, 242) explain the manner in which a Polish state-owned large company started exporting a large quantity of its products to China in the 1980s, gradually withdrawing from the SU market. In Poland, market-oriented attitudes were already prevalent in the 1980s whereas the ground had not yet been prepared for market orientation to develop in the Baltic region.

Transformation to a market economy advanced at a different pace in each of the three countries: most rapid liberal policy gained ground in Estonia, followed by Latvia and yet more hesitantly, by Lithuania (Hunya 2004a, 93). The transition strategy adopted in Estonia and Latvia differed significantly from that of Russia. Estonia was most keen to regard IMF policy recommendations and Latvia soon followed the ‘Estonian model’ (Nikula 1997, 18). The trend towards rapid reforms in Estonia and Latvia inspired a sort of “Protestant ethic” explanation, according to which more traditional, Catholic, family-based relations were more common to Lithuania (Norkus 2007).

Nevertheless, a more convincing explanation for the “backwardness” of reforms in Lithuania is the presence of agrarian values and later modernisation.

In regards to EU accession, Estonia belonged to the initial group of six accessing countries in 1997, whereas Latvia and Lithuania were admitted among a group of ten in 1999. The negotiations for accession concluded in 2002 resulting in the admittance of the countries into the EU in May 2004. The Baltic States scored well in accession process in regards to the political and economic criteria or the adoption, implementation and enforcement of the *acquis communautaire*.



FIGURE 1.1 Map of the Baltic States (Estonia, Latvia and Lithuania in Figures 2005; Statistical Office of Estonia; Monthly Bulletin of Latvian Statistics; FINPRO 2008a; FINPRO 2008b; FINPRO 2008c)

1.3 Industrial development

The Baltic States took part in the Soviet division of manufacturing industries: Estonia had heavy industry (metal, fabricated metal etc.) as well as Latvia (steel processing, vehicles, light industry), whereas Lithuania was directed heavily to the chemical (energy) sector, electronic apparatus and textile industry.² The

² Both Sovietisation and industrialisation proceeded at a slower pace in Lithuania than in Estonia and Latvia, due to a fierce resistance of Lithuanian people against Soviet influence. The republic obtained in capita investments that amounted to only a quarter of the level in Estonia and a half of the level in Latvia (Lane 2002, 67).

food industry played a significant role in all of the countries. The Baltic States, which belonged to the Soviet Union between 1944 and 1991, served as a “show window” towards the West, as they were the front-runners in industrialising the Soviet Union (Nikula 1997, 18).

After the collapse of the SU, the Baltic States made remarkable progress in restructuring the economy, reorienting to new markets and reallocating resources to new sectors (Eamets and Masso 2005, 72). Baltic republics clearly distinguished themselves from the Commonwealth of Independent States (CIS) in terms of rapidity and the scope of economic reforms (Pabriks and Purs 2002, 90). The structure of the industry was based on new articles: wood and furniture products led the way followed by machines and chemicals in Latvia, whereas in Estonia emphasis was placed on electric equipment, textiles, food and wood processing industries. In Lithuania, chemicals (processed products of oil), machines, transport equipment and textiles appeared to be the most important export articles.

The Baltic countries have been fortunate in comparison to some other countries that served as satellites of the Soviet Union or FSU countries. GDP, salaries and foreign direct investment rose more rapidly in Baltic countries than in other CEE countries until the recession, starting in 2008. Lithuania, for example, produced the highest growth in industrial production and GDP among the EU-8 countries in 2000-2003 (The World Bank 2005, 5). However, as to the real GDP growth since 1990, Latvia and Lithuania have the lowest ranks compared to other EU8 countries:

TABLE 1.1 Developments of GDP and industrial production in EU8 countries (The World Bank 2005, 6)

Indicator	Estonia	Latvia	Lithuania	Czech Republic	Hungary	Poland	Slovak Republic	Slovenia	EU8 average
Real GDP (1990=100)	109.2	79.6	88.1	108.6	119.3	134.6	116.8	130.2	129.7
Real GDP (2000=100)	120.2	123.5	123.7	107.4	110.5	106.3	112.9	108.6	109.0
GDP per capita (EU15=100)	43.3	36.7	43.6	63.3	54.9	42.5	48.2	70.6	-
Real industrial production (1990=100)	84.5	57.9	53.5	99.6	171.4	139.8	111.6	95.8	140.2
Real industrial production (2000=100)	129.4	123.0	138.9	118.1	113.3	107.8	119.9	106.8	113.3

Table 1.1 shows that GDP remained still in 2003 below the 1990 level in Latvia and Lithuania, whereas Estonian economy had already managed to recover its GDP above the 1990 level, thus reaching the same growth rate as the Czech Republic. But all in the Baltic States, the post-2000 growth rate has been remarkably high, which indicates that these countries are catching up with the best performers within the EU-8. This is not surprising given the lower-income

countries are always likely to display high economic growth compared to ones that have already reached high-income levels. (The World Bank 2005, 5.)

The **Estonian** manufacturing industry has recovered rapidly from the downfall of the Soviet regime, mainly due to subcontracting activity. This is evident in the high proportion of manufactured product exports (44 percent). Nearly all manufacturing companies are small or medium-sized enterprises. The proportion of manufacturing industries of the Estonian GDP was 19.3 percent in 2004. (FINPRO 2005c, 21.) There has been a considerable decline in manufacturing in proportion to GDP, considering that the figure was 17.5 percent in 2006 (Baltic Facts 2007). Industrial production was worth 6.2 billion Euro in 2006, where manufacturing of wood and furniture constituted the largest single industry (18.7 percent). However, if the machine industry (13.4 percent) and the manufacture of metal and metal products (8.6 percent) were combined together under the same metalworking industry, a single, substantial industry would emerge, accounting for 22 percent of industrial production (*ibid*).

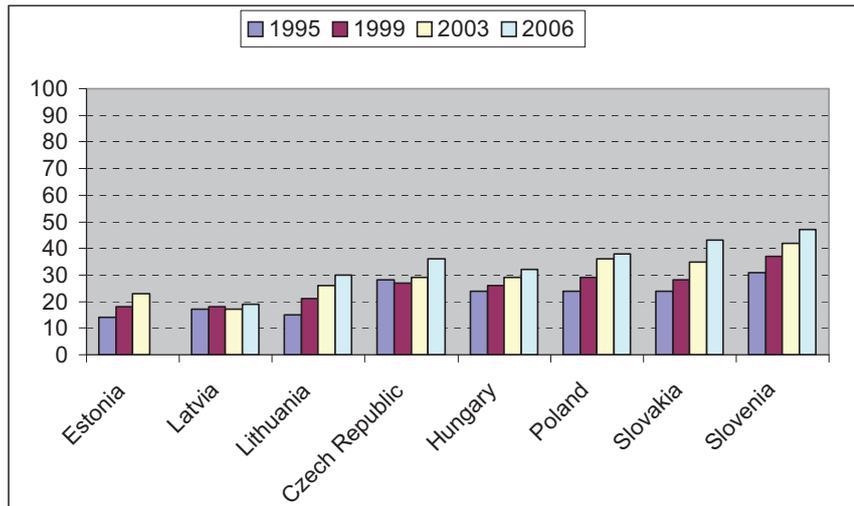
Characteristic of **Latvian** manufacturing are small, versatile enterprises. As during the Soviet regime, the industry was focused on sectors that were highly dependent on Russian raw materials and markets and as a result, the recovery process has been slower in Latvia than in Estonia or Lithuania. An adaptation strategy during the transition period has included concentration on labour-intensive and low value-added manufacturing and promotion of industrial park development. The share of the manufacturing industry in the Latvian GDP was only 13.4 percent in 2004, compared to the 22.4 percent rate in 1995. (FINPRO 2005a, 21.) The rate has continued to decline, dropping to a low of 12.1 percent in 2006 (Baltic Facts 2007). Industrial production is worth 6.1 billion Euro – equal to the value in Estonia – whereas the food industry holds the lead position (22.4 percent) (*ibid*). Also, wood and wood articles play a significant role in Latvian industrial production (19.7 percent).

Manufacturing accounted for 21.4 percent of the **Lithuanian** GDP in 2004, which was more than in Estonia and remarkably higher than in Latvia (FINPRO 2005b, 8). Lithuania is the only Baltic country having increased its industrial production in proportion to GDP, reaching 22.6 percent in 2006 (Baltic Facts 2007). The value of Lithuanian industrial production is as extensive as Estonia's and Latvia's combined: 13.7 billion Euro in 2006, while the production of refined petroleum accounted for a quarter of that value (*ibid*). Lithuania appears to be a provider of manufacturing facilities, particularly for foreign enterprises. The most significant proportion of FDI was allocated to the industrial sector (34 percent) (FINPRO 2005b, 18).

Will the characteristically 'low-road' to economic development based on cheap labour and low value-added activity that has prevailed since the transition period remain permanent in the Baltic States? National labour productivity statistics display the extent to which value-adding activity occurs in manufacturing. The comparison between the EU-8 countries shows that

Estonia, Latvia and Lithuania still remained at a very low level in terms of productivity in the manufacturing industry.

FIGURE 1.2 Industrial labour productivity in the Baltic States as well as biggest CEE countries accessed the EU in 2004 (Euro area = 100). Data from 1995-2006 (Bijsterbosch and Kolasa 2009, 33)



In CEE countries, traditional industrial branches have dragged behind other sectors such as construction, services and financial activities (Bijsterbosch and Kolasa 2009, 10). The productivity figures are alarming for the Baltic countries, where much is to be done to seal the productivity gap between them and the other accession countries. Galgóczi (2004) displays a link between a high value adding knowledge intensive inward investment and the productivity gain in Hungary. The authorities have been slightly worried about the tendency of investment in low value added sectors in the Baltic States. In the beginning of the 1990s, Baltic economies were dominated by non-competitive, low-technology industries, which made them less interesting as targets of export-oriented, market-seeking investments. (Hunya 2004a, 92.) Foreign investors' strategies will change in the future, since productivity has not kept in pace with wage increases and all labour-intensive parts of the production will be relocated to cheaper countries (Heliste et al. 2007, 154).

1.4 The post-socialist context

The peoples of the Baltic States have embraced an enthusiastic ethos of restructuring their countries in the aftermath of the Soviet occupation. Their civic movements that led to the re-gaining of independence in 1991 was intertwined with an anti-communistic political mobilisation (Ruutsoo 2003,

250). In Estonia, the strikes organised by the Inter-Front movement during the struggle for independence were marked by a Soviet stamp (Aarelaid 1996, 163), and therefore bore a negative stigma. Whereas the post-war “one-nation” identity in Finland was based on *compromise* or the mutual recognition of the particular interests of different social classes, the Baltic states built on post-communist *consensus*, where the common perception (of the titular nationalities) was one where the slightest issue reminding the people of the Soviet past was viewed as destructive for the development of the society (see e.g. Smith 2002, 113; Pabriks and Purs 2002, 83).

However since 1991, participation in numerous joint actions and societies has decreased because the enthusiastic ethos has diminished (*ibid*). Associations are no longer used for expressing opinions or advocating one’s interests, as people have concluded that they will not resolve social problems (*ibid*, 168). Still, the Soviet impact is evident in policy-making, as the Baltic States try to erase everything associated to the Soviet time.

The fate of the communist party in post-Soviet Baltic societies has reflected the degree to which each state has sought to erase Soviet legacies. Jensen (2003, 6) writes that during the 20th Party Congress in December 1989, the Lithuanian Communist Party declared itself independent from the Soviet Communist Party. Moreover, the transformed party was very active in its struggle for independence. The successor of the communist party, the Lithuanian Democratic Labour Party (LDLP) has been regarded as a social democratic party. Some critics blame the LDLP for the apparent “backwardness” of economic reforms in Lithuania, as the party in power during the critical years of the country’s transformation (Norkus 2007). With a majority in the Parliament, this party alone formed the government between the elections in 1992 and in 1996. Conversely, in Latvia and Estonia the voters marginalised the successors of the communist parties (*ibid*). Jensen (2003, 6) maintained that in Estonia, the emerging social democratic party, the “Moderates,” had only been in government with rightist parties, whereas in Latvia the Social Democratic Workers' Party had not had any place within the government for longer than four months.

Most of the carry-over from the Soviet era is concerned with characteristics of the labour market and work organisation. The principle of full employment kept the Soviet labour market characteristically tight. Employee voice was considerably restricted as the ‘troika’, consisting of a company director, a trade union leader and the Party functionary shared power in the enterprise. These features had repercussions for the post-socialist regime, in which paternalist management-employee relations sustained and tight external labour markets endured due to emigration abroad.

I agree with Michael Burawoy’s idea that the post-socialist transition must be understood in terms of *transformation*, instead of as a series of epochal ‘breaks’ where social relations and practices carry over traditions from the previous Soviet era (Pickles 1998, 174). Consequently, Western European models are not directly applicable to the Baltic region. The emerging production

regime must be understood as a hybrid, consisting of elements from the Soviet past and the market economy (*ibid*, 175).

1.5 Research setting and data

The research data encompasses the case studies of twelve Nordic subsidiaries in Baltic manufacturing. Six of the subsidiaries had unions during the fieldwork (2004-2006). The selection of subsidiaries was a systematic one that constituted a matched sample and allowed for the analysis of distinctive phenomena. The firms were selected from the most comprehensive sample of that time, consisting of 400 Nordic manufacturing subsidiaries. Three Danish, three Finnish, three Norwegian and three Swedish owned subsidiaries were chosen, while there were four companies in each of the three Baltic States (Estonia, Latvia and Lithuania) representing different industrial sectors.

The initial purpose was to include a comparison between unionised and non-union subsidiaries in the research setting, which is why six subsidiaries had a union and six did not. From the Nordic perspective, the existence of a union is assumed to have a crucial impact on employee relations. In such a research setting, the findings concerning managerial control are expected to be more independent of the fact whether a union exists or not.

The data for this research is comprised of a collection of interviews and documents. A case study approach allows the researcher with additional observational opportunities within the organisation, such as analysis of materials, attendance at meetings, conversations in corridors or in cars (Hartley 1994, 209). I was able to speak with locals living in close proximity to some of the factories in order to gain a better understanding of the local environment and the factory's influence on local social relations. I made notes on the milieu surrounding the plants. Occasional discussions with various workers within the firms' hallways, production shops and offices shed more light on the organisation of work and employee relations on the shop floor.

Production or personnel managers I interviewed provided me with various documents relating to the history, employment and work organisation within the firm. Also, collective agreements at companies where ones existed were provided, as well as rules regarding work procedure from ten of the factories. Some degree of media survey, such as finding relevant newspaper articles, was carried out throughout the study time frame (2004-2008). In regards to newspaper articles and other literal sources, more emphasis was placed on Estonian literature and citations from Estonian newspapers than on Latvian and Lithuanian ones. This restriction was due to my language skills: I speak Estonian and conversation in that language was easier to follow. Estonian literature was also easier to access.

TABLE 1.2 Types of research data

Data type	Quantity	Level	Themes
Employee interviews	3 x 4 x 4 =48 (3 countries x 4 companies x 4 employees)	shop floor	labour conditions, job characteristics, autonomy, experiences in participation and trade union activity on the shop floor
Shop steward interviews	5 (6 companies have a trade union, but one of them missing a shop steward)	shop floor	accounts of employee participation and negotiation, trade union history and activities
Memos	2 x 12 (two visits per company)	shop floor / firm	working conditions, organisation of production, surroundings
Employer interviews	3 x 4=12 (3 countries x 4 companies)	firm	investment, company characteristics, organisation of production, accounts of employee relations
Collective agreements	3 (only 3 of the 6 companies with trade unions have managed to sign an agreement)	firm	union security and management rights, wage and effort, individual security, worker participation, administration
Internal rules, codes of conduct	10 (10 companies out of 12 disclosed the document)	firm	employees' and employer's liabilities, safety instructions, work and rest times, usage of equipment and facilities
Interviews of reps of trade unions	3 x 2 =6 (3 countries x 2 industries)	sector	labour market and industrial sector characteristics, trade union history, social dialogue on sector level
Interviews of reps of employers' associations	3 x 2 =6 (3 countries x 2 industries [the same ones with trade union federations])	sector	labour market and industrial sector characteristics, trade union history, social dialogue on sector level
Media survey	various newspaper articles from 2004-2008	sector / national	business trends, Nordic investment, industrial relations, labour codes

The interviews in the case companies followed interviews with representatives from trade unions and employer associations made during 2004-2005 in two manufacturing sectors in each country. The interviews at six union federations and six employers' associations simultaneously served the purposes of the EU-funded project "Promoting Information, Consultation and Participation in Estonian, Latvian and Lithuanian Industry and Construction Sectors," in which I acted as an external expert. These background interviews were concerned with the state of social dialogue in the sectors, the scale and scope of investment (especially Nordic impact on the sectors) and general characteristics of the industrial sector.

The interviews with federations were useful in many respects. The representatives of the employers' associations provided an insight into the power relationships prevailing in the chosen sectors. Union officials provided many facts and opinions on the selected companies, which may not have emerged otherwise. For instance, the chairman of a trade union federation gave a different account of one factory than the shop steward with regard to unionisation trends and employer-employee relations. When I visited a particular trade union federation, I was given a document that was not

provided by the researched company. A trade union official disclosed of a secret union in one factory. Moreover, a contact from one federation confirmed my suspicion that a particular firm had not been given assistance from the sector level when forming a union organisation.

Although grouping the case study companies under the broad umbrella of 'Nordic' companies may be problematic, it is justified on certain grounds. There are similarities between the Nordic countries in terms of characteristics of corporate culture (see e.g. Geert Hofstede's Nordic cluster), industrial relations (the Northern model; see Winterton and Strandberg 2004, 37-39), the welfare state model (e.g. Esping-Andersen's Nordic welfare regime) and political orientation (Denmark, Finland, Norway and Sweden have a long tradition of a ruling social democratic party): all of which are essential to the analysis of the labour process.

1.6 Outline of the thesis

This dissertation is divided into nine chapters. Chapter One introduces the reader to the topic, outlines the reasons for the use of the labour process theory in this research, familiarises the reader with the Baltic States and their industrial development, as well as research setting and types of data. The reader is introduced with the post-socialist background in these countries, since the industrial development is seen as a gradual transformation rather than as epochal 'breaks' occurring in history.

Chapter Two captures the development of the capitalist, state socialist and Nordic modes of the labour processes as well as introduces the present-day fragmented and geographically dispersed labour processes. Over the span of the 20th century, there have been different trends and managerial innovations concerning the capitalist labour process (Thompson 1983; Julkunen 1987; Penn and Sleightholme 1995; Frohlich and Pekruhl 1996; Jaros 2001; Thompson and Smith 2001). Particular to the state socialist labour process were the direct control and hierarchical command structures on the one hand, but also collusion between workers and managers and relatively high workers' control over the labour process on the other hand. In regards to the Nordic mode of the labour process, the 'Volvoist' organisation of production (see Chapter 2.3.4) has given way to 'Toyotism' (Chapter 2.1.3). Employers are opting for global management innovations and programmes such as lean production, flexible specialisation and human resource management. Still, the domestic personnel management style is based on consensual relations and co-determination. Against this backdrop it is instructive to explore what shape the 'Nordic' labour process will take in other environments to which the labour-intensive part of the production process has been moved. I conclude my exploration of the development of the labour process with accounts of spatially dispersed labour processes and control strategies as they were used in the analysis. Regarding managerial control strategies, the emphasis was on control over the whole

value chain (corporate level strategy and the defining of the role of subsidiary) and local level control strategies of direct control (DC) and responsible autonomy (RA).

In Chapter Three, I use the concept of 'labour market regime' as an umbrella term to discuss the Baltic type of capitalism, employment trends, labour conditions, divisions of labour, emigration and employee relations. In regards to employee relations, actors (trade unions, employer associations) and action (employee participation, workplace bargaining) are considered.

A special focus is bestowed upon the position of trade unions after the collapse of the Soviet Union (SU). The trade union movement in the Baltic countries was not a product of the civic society. It was formed on the basis of the Soviet trade union and developed radically out of it. As regards social dialogue at the sectoral level (in the textile industries), it rarely occurs in recently accepted EU countries, since this form of negotiation is generally not anchored in the traditional practice of the social partners and governments (Monographs... 2004, 9). Industrial relations are less organic in recently accepted EU countries than other EU countries since they are not rooted in the socio-economic development of the particular countries (Galgóczy 2002, 42). Unionisation rates have dropped from almost one hundred percent to 10-20 percent. Sometimes, hostile legislation towards unions, such as the *de facto* prohibition of striking in some sectors, has further deteriorated the position of trade unionism in the Baltic States. The main union interlocutors, employers associations, have not gained popularity either and their role has largely remained as 'producers' or lobby-makers towards state institutions rather than as 'employers' negotiating with trade union organisations.

Action in employee relations, which consists of employee participation and workplace bargaining, is approached from both collective and individual perspectives. One can argue that individual bargaining must be considered as a form of negotiation alongside collective bargaining, since only a fourth of Baltic labour in general is covered by collective agreements. Furthermore, in considering control over the labour process, it should be noted that individual bargaining (which often mirrors the collusion between workers and managers and the unofficial relationships in the Soviet enterprise) is more warmly welcomed by employers than the institution of collective bargaining that requires re-defining the 'frontier of control'.

Chapter Four covers the thematic of foreign direct investment in general and in the Baltic States in particular. It introduces the readers to the basic concepts associated with FDI, such as entry mode, motive of investment and subsidiary role. Generally speaking, there are two types of investment motives: market-seeking and efficiency-seeking investments. Also, a rather residual category of investment motive – resource-seeking investment – is considered, although it is not widespread in the Baltic context. It is assumed that the variation between different investment motives derives not only from the pressure of the product and labour markets at home but also from the market situation in the host country.

Equally important in determining the development of subsidiaries (in terms of upgrading / downgrading the processes and introducing R&D activity) is the role of subsidiary. The classification by Dörrenbächer and Gammelgaard (2004) identifies whether the subsidiaries are meant to remain mere *miniature replicas* or *rationalised manufacturers*, or whether they should be considered *product specialists* or *strategic independent units*. The direction in which the Nordic owner directs the production process captures our attention – whether it be the ‘high road’, resembling the Nordic mode of the labour process or the ‘low road’, implying an escape from the home-country standards. An analysis of the roles of subsidiaries will be done in Chapter Six.

Chapter Five familiarises the reader with the data and methods used in this study, as well as introduces the analytical framework used in the analysis. It also provides an overview of the case study approach, where interviewing was used as the principal method and explores a template (codebook) approach to analysis. Furthermore, the framework for the groups, into which the researched subsidiaries are organised, is laid out. In short, the grouping was based on the notion that a link exists between investment motives (market, efficiency and resource-seeking) and the nature of work (production line, handwork, craft work and seasonal work). The reader is also familiarised with the analysis of *employee relations*: the topic of Chapter Seven. The study of employee relations encompasses the actors (trade unions and other employee representation bodies) as well as the processes (such as employee participation and workplace bargaining). The form (indirect and direct), the way of influence (information and consultation), and the sphere of influence (welfare, operational, tactical and strategic levels) are considered in association with employee relations. Two forms of workplace bargaining are analysed: collective and individual bargaining. The case study companies are organised according to the nature of product and by the type of investment motive.

Chapter Six is the first of the analytical chapters (the others are Chapters 7 and 8). The pressures from the product markets (or the emerging opportunities of the markets in the case of market-seeking investments) are reflected in the role of the subsidiary. The twelve case study subsidiaries are organised into four groups classified according to the investment motive and the nature of the product. Short histories and investment motives are given and the intended role of the subsidiary is analysed. Observations suggest that the case study companies are generally downgraded to operate only a standard part of the production process or a lower-tier segment of the vertical production chain. Prospects of upgrading the production process at the investigated factories are modest. While Nordic owners at a few firms import R&D functions to the subsidiary, in other cases, disinvestments also take place. In the majority of the cases, workforces are “locked in” a lower-tier position in the spatially dispersed production process.

Labour market characteristics and work design also merit analysis. At the beginning of the 2000s, Nordic industrialists faced tight labour markets in the Baltic factories. In the textile factories, tight labour markets are due to a massive

emigration of young workers abroad, while aging (Russian) women are more likely to retain their workplaces. In engineering shops, there is a real lack of qualified welders and locksmiths. This, in turn, causes the Nordic employers to raise their wages on one hand but also import cheap labour from FSU countries on the other. The scrutiny of the work design in the factories serves as a prelude to a more systematic analysis of the position of shop-floor workers and measures of control introduced in the plants.

Chapter Seven is another analytical chapter, concerned with employee relations at the plants. Firms are again organised on the same basis as in the previous chapter (nature of production and investment motive). Employee participation took collective (indirect) forms mainly in units where work organisation was inherited from the Soviet time. The approach of the Nordic manufacturer towards the Baltic workforce seems to be heading towards evading the Nordic-type 'incorporation participation' model, in which unions are involved in the long-term strategy-planning of the firm (Ackers et al. 1992). The only exception to this rule in the study was the Ingredient case, in which the unit was closed and the union incorporated and devised a social plan for dismissed workers. Baltic workers are apparently involved in wage bargains that are increasing mutual competition on the shop floor. The use of individual bargaining eventually leads to the emergence of the internal labour market, which in turn increases the potential for managerial control.

Chapter Eight is the third analytical chapter that undertakes an in-depth analysis of the labour process in terms of control, on two levels. First, the way the Nordic manufacturer approaches the Baltic segment of labour is related to the position of the workers in Nordic countries. As different motives of investment (market, efficiency or resource seeking) arise from the pressures of the product market and the 'rationalisation' processes associated with these, managerial desire for controlling the local labour process is seen in a wider context of circulation of capital or from the perspective of the whole value chain. The underlying idea is to discern whether any variation occurs between different types of production. Variation may indicate that investment strategies play a part in shaping the labour process.

Furthermore, the 'frontier of control' between management and the labour force is examined from the perspective of job autonomy and worker discretion at the plant level. The analysis of worker autonomy draws upon the exploration of the workers' discretion over their work tasks, work hours, job intensity and control of work results. Further, an analysis is made of the direction of change within the workplace. A discussion is put forth about whether the labour process is developing into more intensified and disciplined extreme of direct control, or whether traits of responsible autonomy are discerned in the labour process. The results reveal what role the Baltic subsidiary and its labour are meant to play in the entirety of the production chain of Nordic companies.

Finally, Chapter Nine summarises the findings, addressing the research questions posed concerning the position of Baltic labour, Nordic investment strategies, and the post-Soviet context. In this context, Baltic plants are placed in

the Nordic production chain against a backdrop of global-scale flexible accumulation. Also, the political and theoretical implications of the findings are addressed. The main conclusion of this thesis is that while a high degree of worker discretion and a high union influence characterise the labour process at the Nordic 'core', direct modes of discipline and the undermining of union power are pervasive in the Baltic 'peripheral' units. Nordic-type high worker autonomy, group work and co-determination between management and union were a rarity at the researched subsidiaries. To remain competitive, firms seemingly need to keep a certain part of the production process under more strict control and inequality between principal firm and subsidiary are a result of this process. Considering worker autonomy and control over the labour process, textile and process production were under managerial control to a greater degree at engineering shops or seasonal production. However, the variation in worker autonomy occurred within the category of 'direct control' rather than between responsible autonomy and direct control in all types of production. A higher status in terms of skills and wages at some factories was apparent within some occupational groups, which did not result in increased autonomy. Rather, it is an indicator of the creation of the internal labour market.

2 THE LABOUR PROCESS IN DIFFERENT MODES OF REGULATION

2.1 The capitalist mode of the labour process

The labour process theory has always adopted new areas of research as new managerial innovations or programmes have emerged. While the capitalist labour process has transformed and differentiated, the managerial pursuit for control has remained the same. Management innovations and theories can be seen as part of a broader picture. Dicken (2003, 88) wrote an inspiring review of the so-called Schumpeter-Freeman-Perez paradigm of five cycles,³ in which the capitalist economy has its ups and downs along with the introduction of innovations and withdrawals of production technology. The first two waves encompass an earlier industrialisation period from 1770-1890, which laid the foundation for the mass production in latter phases. In the third period from the 1890s to the 1930s, technical development was characterised by a universal availability of cheap steel and alloys, unit and group drive for electrical machinery, overhead cranes, power tools permitting vastly improved layout and capital saving. During this period, standardisation facilitated worldwide operations. During the fourth wave, from the 1930s to 1980s, flow processes and assembly line production techniques got the upper hand on limitations of scale of batch production. The era was characterised by full standardisation of components and materials as well as abundant, cheap energy. The fifth, contemporary stage beginning in the 1980s witnessed the partial adaptation of flexible manufacturing systems, networking and economies of scope. Limitations of energy and materials are now partially overcome by electronic control systems and components. What is more, limitations of hierarchical departmentalisation are supposed to be substituted for 'systemation', networking and integration of design, production and marketing.

³ This paradigm is based on the work of Russian economist Nikolai Kondratiev, who introduced a 50-year period system in the development of capitalism in his book "The Major Economic Cycles" (1925).

TABLE 2.1 Development of the labour process theory and the capitalist labour process (data collected from Thompson 1983; Burawoy 1985; Julkunen 1987; Penn and Sleightholme 1995; Fröhlich and Pekruhl 1996; Jaros 2001; Thompson and Smith 2001; my periodisation).

	LPT debate	Development of capitalist LP	Ideologies guiding the capitalist LP
- 1965	division of labour, hierarchy, control	Fordism	Taylorism (scientific management), job enlargement
1965 - 1985	segmentation / dual labour market; deskilling; forms of control and 'responsible autonomy', resistance, gender, consent	group technology, flexible specialisation, 'new forms of work organisation'	work humanisation, socio-technical theory, QWL, job enrichment
1985-	partnership, employee participation, McDonaldisation, knowledge economy, subjectivity, 'low road', precariat	lean production (Japan), <i>kaizen</i> , quality circles, just-in-time, TQM, HPWOs	direct participation, 'new production concepts'

As Table 2.1 indicates, labour process theory (LPT) has followed the development of the capitalist labour process, its managerial innovations and developmental programmes. LPT has continually produced more elaborate research topics, ranging from the broad topic of labour division to new forms of work organisation and high performance work organisations (HPWOs). According to Thompson (1983, 57), analysis of the capitalist labour process "needs to be constantly reviewed and renewed in new conditions." The fact that the range of issues have become narrower does not necessarily mean that labour process theorists are desperate to find new grounds for the theory because earlier paradigms have lost their validity. Rather, the shift in attitude reflects historical developments in the world of work (Thompson 1983, 71) and it may also indicate a change of the line of demarcation between what we define as 'capital' and 'labour'. So, either the control modes of capital over the labour process have altered or there are a greater number of them. While Braverman (1974) puts this in terms of 'class' shifts, Thompson (1983, 86) argues that the Bravermanian analysis of the development of the labour process underlies shifts in *class location* to explain changes in the nature of work.

The labour process theory - as one can learn by reading the work of Braverman - leads to the conclusion that labour will gradually lose the skills and abilities in its possession, also known as *deskilling*. In his classic *Labor and Monopoly Capital*, Braverman (1974) set himself against Taylorism which is seen as a manifestation of the capitalist tendency of deskilling or degrading workers. By this process, control over the labour process shifts from craft workers to management (Julkunen 1987, 79). Although there are ongoing reverse developments in the development of the labour processes and Braverman's thesis of deskilling is not fully capable of explaining the capitalist labour process, the degradation thesis still remains valid. Since degradation is a matter of experience, it is affected by phenomena wider than the conventional "objective" features of work (Thompson 1983, 120). Nevertheless, the trend of

deskilling under capitalism is not an inherent tendency but it may result from managerial accommodation to worker resistance (here Thompson 1983, 117, refers to Friedman's ideas).

I regard the introduction of the new terms in managerial discourse as a sequence in the process of creating commitment to the organisation and creating desirable behaviour among employees, as well as winning social acceptance to organisational innovations such as lean production (see e.g. Pruijt 2003 with regard to the introduction of 'teamwork'). The organisation of work (from Fordist to post-Fordist) provides a means for the use of labour in some form ranging from Taylorism to new forms of work organisation. At the very foundation of these innovations, there has always been the idea of gaining competitive edge, whether by means of scientific management or through increased work autonomy with greater ideological control (for the latter 'competitive edge', see Littler and Salaman 1984, 52).

One of the future prospects of the 21st century labour process theory concerns the fragmentation of labour processes (Julkunen 2008b). The latest developments in capitalist labour process (the Western framework of post-Fordism) and the breaking down of the grounds for the state socialist labour process are accompanied by a new phenomenon: the fragmentation of labour processes. This fragmentation is also seen distinctively among employee relations in the Nordic and Baltic countries.

2.1.1 Fordism

Henry Ford can take full credit for introducing assembly lines in the car industry in 1913-1914 (Littler and Salaman 1984, 75; Julkunen 1987, 91). Prior to the installation of assembly lines at Ford, company engineers had been designing the organisation of production for many years. In adopting this process, they gradually concluded that the distribution of production to series of operations was best organised in a manner where the object under production moves from one spot to another. Thus, assembly workers were tied to their posts and had no reason to move about the workshop, which resulted in a work pace that was *controlled mechanically and not by the workers or supervisors* (Littler and Salaman 1984, 75). What is more, Ford standardised the components of the production process (parts, intermediary products, equipment, human work) and mechanised production, providing bulk items for mass markets (Julkunen 1987, 93). Besides the rationalisation of production, Ford sought to intervene in the workers' lives in a paternalist manner, where in exchange for higher wages compared to the national average, employees were expected to be disciplined and committed to the workplace. Boxall and Purcell (2003, 95) describe the manner in which Ford achieved these ends:

If worker resistance to the factory regime became problematic then the answer was to pay higher wages in return for compliance and discipline [...] If absenteeism and labour turnover problems were experienced, perhaps a welfare department (the forerunners of personnel management) could be used to visit sick workers, more for reasons of control than compassion...

This excerpt illustrates not only the means that Ford used to gain compliance but also the nature of control interconnected with the Fordist factory regime. One should also note that national governments realised the threat of a potential resistance arising due to the suppression of a trade union movement in the first half of the twentieth century and they persuaded companies to recognise unions (Boxall and Purcell 2003, 95).

Leborgne and Lipietz (1991, 30) argue that in its heyday Fordism provided a new world order in the form of the 'first international division of labour'. The mode of regulation was characterised by stable forms of wage relation, a tendency towards industrial concentration and a privileged role of the nation state. The Fordist regime also influenced how we see the modern-day world. Very rapid productivity gains, a high volume of investment per head and growth in per capita consumption marked the triumph of the dollar as the monetary credit and international means of exchange and helped establish the hegemonic position of the United States, along with other Western countries (*ibid*).

2.1.2 Taylorism

At the base of Frederick Taylor's *scientific management*, which he wrote in the 1890s, were the ideas of management systemisation and rationalising work processes. The division of mental and manual labour were also introduced (Littler and Salaman 1984, 73; Julkunen 1987, 85). Adam Smith (*The Wealth of Nations*, 1776) first introduced the idea of division of labour. Charles Babbage (1832) made additions to it, developing what would become known as the "Babbage Principle." According to this principle, skilled jobs were reduced to an essential core and all the surrounding tasks were deskilled (Littler and Salaman 1984, 73). Neither Smith nor Babbage clearly explained the principle of specification and narrowing of work tasks, or separating job design from manual execution of work.

Taylor assumed that "scientific work standards" would eliminate labour disputes and the need for trade unions (Julkunen 1987, 88). The effect on the labour movement was, in fact, quite the opposite. Taylorist division and rationalisation of work laid the foundation for trade unionism (Kauppinen 2005, 181). De-skilling and control of work increased grievances and displeasure among the workers. It should be noted that employers did not accept the introduction of Taylorist management methods without reserve. In addition to worker resistance, there was also significant supervisor and managerial resistance to Taylorism, which even failed as a managerial *ideology* in Britain (Littler and Salaman 1984, 74). In Britain, there was a time-lag of Taylorist influence, as prior to 1914 the employers rejected such 'American' methods of management (*ibid*, 74). Finally, studies that sought to settle the resulting fatigue of the First World War, combined with some elements of industrial psychology, led to the penetration of the neo-Taylorite *Bedaux* system in the UK (*ibid*).

Although its influence on factory jobs was extensive, Japanese companies did not adopt Taylorism. Instead, they depended on a tradition of work teams incorporating managerial and maintenance functions with few staff specialists (Littler and Salaman 1984, 74). These factories did not follow the prescriptions of Taylorism but rather, they developed a work organisation with a lack of job boundaries and continued job flexibility (*ibid*).

Inspired by the prevalence of Taylorism, Harry Braverman (1974) constituted his deskilling thesis, expounding the Taylorist degradation effect (known as 'orthodox labour process theory' [Wood 1989]):

- Duties at work have been divided into simple subtasks with specified instructions. The skills of the employees have been separated from the entirety of labour process.
- Work design (planning) has been separated from the work itself
- Management has been provided with the possibility to monitor the whole work process in detail by means of monopolising the work design and creating elaborate rules.

Taylorism served as a demarcation line in many respects, the main one being the separation of design from the execution of work. However, at the same time, management underwent a profound transformation from a rather superfluous function into an indispensable coordination and design activity (Littler and Salaman 1984, 67). While in the nineteenth century, workers saw themselves as the sole creative factors in production, under Taylorism workers accepted the concept that the efficiency of the whole enterprise depended on the management. In this process, workers gave up the questioning of, or resistance to, many aspects of their domination (*ibid*). In Burawoy's (1985, 8) terms, workers confronted a more managerially determined factory regime while withdrawing their initiative in defining political and ideological *apparatuses of production*.

2.1.3 The Japanese production model

Just as the Scandinavian vanguard model has been termed "Volvoism," Japanese methods of group work, quality of production and flexible production can be bundled as an entity titled "Toyotism."⁴ In addition to the ultimate goal of increased flexibility (Dicken 2003, 111), the main elements of the Japanese model include (Castells 2000, 169):

- "Just in time" system of supplies, by which inventories are eliminated or reduced substantially through delivery from the suppliers to the production site at the exact required time and with the characteristics specified for the production line
- "Total quality control" of products in the production process, aimed at near-zero defects and the best use of resources
- Workers' involvement in the production process by using teamwork, decentralised initiative, greater autonomy of decision on the shop floor, rewards for team performance and a flat management hierarchy with few status symbols in the daily life of the firm.

⁴ The term 'Toyotism' reflects the leading role played by the automobile industry in general and of Toyota in particular (Dicken 2003, 114).

Japanese 'Toyotist' work organisation has been transplanted with considerable ease to the West. Gradual diffusion of the Japanese organisational practices to Western plants has occurred either through the overseas expansion of Japanese firms themselves or through promotion of these ideas as "best practices" (Dicken 2003, 114). Notwithstanding, one might assume the Japanese model of production is related to (national) culture, since it concerns both the consensus-building and cooperative model of teamwork. It also works equally well in Japanese firms as in Europe and the United States. Successful cases include American (GM-Saturn) as well as German (Volkswagen) factories (Castells 2000, 169).

Western production managers visiting Japan found hard-core Taylorism exhibited in the automotive plants, including long, mechanical lines with short-cycled and constrained tasks (Berggren 1989 180). Although Japanese workers may have some discretion over task performance (Kumazawa and Yamada 1989; Whitley 1999, 90), the Japanese employer maintains unilateral discretion in distributing jobs between the core and periphery workforces (Kumazawa and Yamada 1989, 114). In his analysis on the labour process at a Japanese-owned electronic components plant in South Wales, Danford (1998, 46) found that: "The operators' labour processes again comprised repetitive manual assembly tasks whilst the intensity of work was dictated by fixed cycle times and tightly policed by shop-floor supervisors." And in another factory (*ibid*): "The operators' labour processes were organised around five robotic work stations located along one line and each linked by a sophisticated enclosed conveyor system." In conclusion, Danford (1998, 46) summed up the labour processes in Japanese-owned electronic components plants as: "Japanese managerial efficiency, combined with the exploitation of sophisticated new technology of a type that would enthrall our contemporary business writers, had created a degrading, no-skill labour process."

2.1.4 Post-Fordism or 'flexible specialisation'

Since the late 1980s, there has been a myriad of contributions to the debate on *post-Fordism*.⁵ This term describes a variety of new approaches to markets, consumers and workers in the new global marketplace, where governments are relatively "unable" to control the economy (Knudsen 1995, 145; Boxall and Purcell 2003, 96). Post-Fordist product orientation to small batch production resembles that pursued by group technologies (the 'group' production layout). Here, stock is controlled on a just-in-time basis: organisations are flat: machine tools (CNC) are multi-purpose and adaptable: and, multi-skilling and flexible specialisation are promoted. Post-Fordist management theories lean towards HRM, supported by numerically flexible peripheral workers, whereas HRM aims at high individual performance by means of individualised payment, for

⁵ Dicken (2003, 108-110) prefers using the term 'after-Fordism', presenting neutrality in a tension between post-Fordism (the new technologies create quite different forms of production organisation) and neo-Fordism (automated control systems are applied within a Fordist structure). According to him, the phenomena under the new era of after-Fordism are crystallised in a catchword of flexibility.

example. In other words, there is nothing obviously new but rather a combination of ideologies from the work humanisation movement and lean production with an increased emphasis on global marketplace and the use of peripheral workforce through subcontracting. Together, these trends serve to reinforce the international division of labour. (Kasvio 1994, 47; Boxall and Purcell 2003, 97.)

According to many scholars, there seems to be a historical trajectory from the era of Fordist mass production to neo-Fordist flexible production (e.g. Leborgne and Lipietz 1988; Gough 1996), between which the 'second industrial divide' served as a theoretical bifurcation (Piore and Sabel 1984). The basic concept underlying new organisational forms is that of *flexible specialisation*. Piore and Sabel drew upon the use of flexible manufacturing arrangements in the Emilia-Romagna region of Italy, where a cooperative network of small and medium sized firms produced customised products for differentiated consumer demands. In the face of economic crises, companies need to either postpone investments in mass production or start craft production, the rationale of which is based on economies of scope rather than on economies of scale. Additionally, flexible specialisation offers a new basis for upgrading processes and stresses the potential of new technology in increasing functional flexibility and skills in order to offer more rewarding work (Wood 1989; Barrett and Rainnie 2002).

In the post-Fordist reorganisation of production, there tend to be "winners" and "losers" analogous of what Kern and Schumann (1986) discerned in connection with rationalisation in the 1970s and 1980s in Germany. Development along post-Fordist lines proceeds in two directions: increased automatisisation or search of flexibility through subcontracting and employing new forms of labour (Alasoini 1990, 111). On the other hand, systems such as 'collaborative production' forms (especially employee involvement) have not been implemented to an extent that the reorganisation could be considered a real transformation (Roche and Geary 2000). Models of advanced production – the so-called 'new forms of work organisation' and 'high-performance work systems' (HPWS) – mainly concern the core workforce at large companies, whereas a large number of networked small and medium-sized enterprises (SMEs) have peripheral workforces (e.g. Peck 1992).

In the Nordic countries, a full-scale acceptance of post-Fordist demands for higher flexibility took root in the mid-1980s. In Finland at that time, transformations including deregulation of capital movement and eventually the 1991 collapse of the Soviet Union meant a shift from class compromise to "de-politicizing" labour relations (Kettunen 2004, 301). Schiller (1993, 61) provides a somewhat post-Fordist picture of the possibilities that new production technologies opened up for the Nordic employer (my italics):

With the change to more flexible and specialised forms of production and the emergence of information technology directed toward the demands of the customer and the market the *importance of the individual employee has increased*. This new mode of production needs employees who are qualified to handle advanced computer equipment, prepared to take more responsibility, and work independently.

In the pursuit for flexibility, Taylorist work organisation may prevail alongside of traditional, informal procedures at small firms, and the strategy of numerical flexibility will predominate in jobs that are moved to cheap-labour countries in Eastern Europe (Kasvio 1994, 47). There is no single standardised form of work organisation and control in the more advanced capitalist economies that would replace Fordist production and Taylorist management (Whitley 1999, 88). However, the post-Fordist emphasis on global industrial networks is of great relevance for the purpose of this research on another basis: namely, the paradigm does not only examine trans-national companies (TNCs) but also considers them as consisting of a framework of firms of different sizes. This is consistent with Gough's (1996) idea that much of the numerical flexibility of peripheral labour is associated with inflexible, standardised labour processes. This idea is further developed in the chapter concerning spatial subdivision of the labour process and flexible accumulation in the global scale (Chapter 2.4). Let us first consider two particular modes of the labour process: state socialist and Nordic.

2.2 The state socialist mode of the labour process

Taylorist doctrines were openly admired and put into practice in the Soviet mode of the labour process, where a strong division of labour and piece-rate pay were commonplace (Pietsch 1987, 118-122; Clarke 1996, 40). Clarke (1996, 40) aptly summarised work organisation under the Soviet system:

This system is in part a legacy of the conditions of rapid industrialisation in the 1930s, when there was an acute shortage of skilled managers and specialists so that industrialisation took place on the basis of *de facto* shop-floor control of production onto which the formal Taylorist methods of piece-rate payment systems and the 'scientific organisation of labour' were superimposed from above, the two systems being reconciled by the informal relations between management and labour, which were in turn monitored by Party and trade union bodies.

However, there were variations between different state socialisms regarding labour processes. The Hungarian government introduced organisational innovations in the early 1980s called 'Business Work Partnerships within the Enterprise' (VGMK), which blurred boundaries between state and market, formal and informal (Grabher 1995). The idea of VGMK resembles that of the *keiretsu* network in Japanese work organisation where a strong clan controls the accumulation and allocation of profits. By comparison, in Hungary, peripheral "groups of workers organised semi-autonomous subcontracting units to produce goods during their non-working hours using factory equipment," creating a virtual centre to allocate losses (Grabher 1995, 40-49).

2.2.1 Soviet enterprise management

Burawoy (1985, 163) recognised two strategies in Soviet enterprise management's relation to their labour: peripheral labour might be under strict surveillance, but core workers could be rewarded for cooperation. Although the mechanism that led to the duality of strategies was different under state socialism (coping with problems of supply) from that under capitalism (coping with demand), the outcome (namely the exploitation of a dual labour market), was surprisingly similar. Perhaps a crucial difference lay in the position of the core workers. Whereas under the state socialist labour process they were granted a good deal of autonomy and control over the labour process, under the capitalist vanguard model, lean production, core workers' workloads were intensified while their commitment to the workplace was elicited by means of cultural control.

Whereas capitalism enterprises are dependent on changes in demand, state socialism enterprises are faced with deficiencies of supply. Therefore, under the latter regime, the labour process was subject to continual reorganisation, whereby workers were given a significant role (Burawoy 1985, 163). Burawoy (*ibid*) explains: "the fluidity of task structure and the continual need to redistribute workers among machines makes it very difficult to deskill production – to separate conception and execution." The fluid labour process was dependent on the plan negotiated with the central organs (Burawoy 1985, 15, 160; Clarke 1993, 17). In addition to the fact that the Soviet enterprise did not produce according to the market but to the plan, it played a role in securing the reproduction of the labour force via social and welfare functions attached to it (Clarke 1993, 13).

Managerial power was limited at the Soviet enterprise in three ways. First, the director was not allowed to re-organise production for new markets as he wanted, which led to a lack of entrepreneurship. Second, orders came from the ministry, which also had the authority to fire and hire staff. Third, the enterprise director had to work alongside party and union organisations. (Lane 1985, 21-22) Enterprise managers had to cope with negotiations in three different directions (Pickles 1998, 179):

1. Vertical bargaining with the governing institutions over surplus extracted and subsidies provided,
2. Horizontal bargaining with supply firms to guarantee that periodic quotas were met and
3. Internal negotiations on flexible work regimes with worker collectives that ceded some shop-floor control to workers and provided incentives in return for efforts.

From the capitalist management's point of view, the qualities of a good manager under state socialism included – in addition to a more irrelevant ability to negotiate favourable plan targets – the ability to generate worker motivation,⁶ which also proved to be an important quality in capitalist

⁶ Nikula (1997, 40) places emphasis on the management's skill to negotiate favourable funding and production targets with the central organs on one hand, but also on

production. Managers of socialist enterprises sought to foster commitment among core workers, while simultaneously intensifying surveillance and control over peripheral workers (Burawoy 1985, 163).

When discussing management styles inherited from the Soviet era, Nikula (1997, 131) speaks of *paternalistic* strategy and Clarke (2004) of *authoritarian paternalist* style. The socialist regime was able to control workers by engaging them with the Soviet system as collectives and with the enterprise as individuals (Ashwin 1996, 27-28). While the 'false' collectivism that arose from below was repressed, 'communist' collectivism was imposed from above (*ibid*, 28). Authoritarian paternalism is a natural strategy on which both managers and workers may have relied in uncertainty after the collapse of the SU. Lavikka (1998, 46) found that at an Estonian textile plant employees might have as long as 16 working hours a day. As compensation, they had wages above the average, a free coffee and sandwich per day, free transportation for those who lived farther, free work clothes, etc. However, Lavikka concluded that Estonian workplace practices were directed towards a hybrid of free market economy and the labour collective tradition of the SU.

2.2.2 Legacies of 'management sovieticus'

One of the basic concerns of Nordic management in Baltic subsidiaries is tackling the 'management sovieticus' as an undesirable Soviet legacy in Baltic businesses (see e.g. Liuhto 1993). The management structure under the Soviet system was clearly separable from the rank-and-file labour structure with its formation of managerial elites, *tolkachi* and *krugovaya poruka* relationships. From the Nordic management point of view, it included some categorically unnecessary elements, such as the *sturmovshchina* practice and the emphasis on quantity instead of quality.⁷ For Nordic management, starting production in the Baltic countries poses a challenge as they strive to eliminate 'management sovieticus' and legitimise the state-of-the-art management of the new era. Overall, it can be said that Soviet management was corrupt and ineffective in the face of capitalist markets, with the definition of management needing to be entirely renewed.

Soviet management practices may have had an even more profound influence on the present managerial attitudes than anticipated. There is evidence of characteristic features of 'management sovieticus' such as irrationality, over-emphasis on quantity, use of informal (often illegal) means and pervasive bureaucracy (Liuhto 1999, 23-25). One can discern a homogenised managerial style even though national variations existed within

their ability to persuade workers to attain the production targets.

⁷ *Tolkachi* were people who had personal relation networks with producers and authorities; *Krugovaya poruka* was a close network of the key persons of the enterprise, usually consisting of a general director, a chief engineer and a chief accountant, which aimed at undermining the control system. Increasing the pace of production in order to fulfil the production plan was called *sturmovshchina*, or 'storming' (Liuhto 1999, 15-16, 19).

the Soviet Union (Liuhto 1993, 8). There are still some ills of 'management sovieticus' which are prevalent in the management culture of the transformation period: the existence of social responsibilities that some state-owned and even private enterprises are expected to perform, the authoritarian management style, and the central role of managers' personal relations in the post-Soviet business culture (Liuhto 1999, 39). Azorbo and Eliasson (2001) attribute 'management sovieticus' to poor quality of production in the Baltic subsidiaries of Swedish firms (as a consequence of the emphasis on the quantity of production under the Soviet time) as well as to the fact that superiors make decisions on behalf of subordinates. According to Azorbo and Eliasson's analysis, it seems obvious that the headquarters increased control over the daughter company due to suspicions that the Soviet style still persisted in Baltic management culture.

In the attitudinal vacuum as an alternative to the apathetic and indifferent 'management sovieticus', the rapid introduction of Western management models and the sudden collapse of the old system led to negative management attitudes (Liuhto 1993, 38-39). At least in the initial phases of transformation into market economies, there was an option to apply exploitative business management, typical of Western companies operating in developing countries (Liuhto 1993, 39). Still, some features of 'management sovieticus' have persevered in the FSU, also in companies where there are foreign managers. This may be due to the managers' choices or because of organisational inertia (Liuhto 1999, 42). Foreign managers are also sometimes forced to adopt features of 'management sovieticus'.

However, the pros of some features of the Soviet system may outweigh the cons including, for example, the Soviet tendency towards labour force *segmentation* and *informal bargaining*. The strict confinement of wage funds within the limits of the plan provoked management to rely heavily upon the layer of elite (*kadrovye*) workers with exemplary qualities of commitment, competency and loyalty (Schwartz 2004).⁸ On the other hand, there was a considerable number of 'reserve' workers confined to routine and auxiliary work with few, if any qualifications. Management also used this segment of the workforce as a means of social control over more highly skilled workers: although dismissals could not be used, workers could be transferred to less skilled and thus less well-paid work (Schwartz 2004). While in general, a centrally defined wages system did not provide *kadrovye* workers with sufficient incentives to be committed to their work, enterprises attempted to introduce *de facto* higher wages for those by means of informal bargaining that corresponded to the prevailing hierarchies (*ibid*). Maintaining informal relations with the core workers while simultaneously intensifying the work of the peripheral labour could appear attractive from the point of view of the Nordic

⁸ 'Kadrovye' workers merited their position on the basis that they had worked in the department for a sufficiently long period (10 to 15 years), acquired appropriate skills and a good disciplinary record, plus some record of voluntary social or political activity (Clarke 1996, 44; Schwartz 2004).

employer. Where certain features of 'management sovieticus' are not desirable, others are worth applying.

2.2.3 Trade unions in the state socialist period

The Bolshevik control system consisted of a hierarchy in which workers' committees were at the lowest level and were therefore subjected to trade unions. Trade unions, for their part, were subordinate to soviets that were submitted to the party organs (Nikula 1997, 55). It would be ridiculous to claim that the trade union in the Soviet time was based on collective consciousness or class interests of workers. Rather, it served as a means for repression on the part of the Party through which the productivity and the fulfilment of the Plan were maintained. Trade unions were an organic part of the ruling apparatus. One task of trade unions in this structure was to overcome the passive resistance of the productive apparatus along with the functionaries of the party and the KGB (Clarke 1993, 27). Hence, trade unions were quasi-state agencies through which state paternalism was cultivated at the workplace (Ashwin 1996, 13).

According to the paternalist principles, the state socialist trade union was a distributor and administrator of social insurance, social facilities and commodities for workers (Clarke and Fairbrother 1993a, 94; Ashwin 1996, 17; Poursadigh 1996, 20-23). This function of the trade union strengthened individualist relationships between workers and management at the Soviet enterprise (Ashwin 1996, 28). The housing benefits, kindergarten facilities, holiday vouchers and allotments were distributed through union officials, which made workers highly dependent on the enterprise and subject to paternalist relations that cultivated individual relationships between them and managers or members of the trade union committee.

The Soviet enterprise union served as an effective reproducer of the segmentation of workforces between the core and peripheral workers. While trade unions participated in the provision of social benefits ranging from housing to medical facilities to the distribution of consumer goods, they acted as the management's medium to keep employees loyal as they regulated the criteria according to which the benefits were allocated (Clarke 1996, 43-44).

In the Soviet enterprise, the union and management worked closely together around a common programme, in which the trade union played a consultative rather than a representative role (Clarke and Fairbrother 1993a, 104). Under the Khrushchev era, the "partnership" principle was reinforced through collective agreements that included the enterprise management's responsibility for the "social development plan" and trade unions were responsible for ensuring that employees realised the production plan (Ashwin 1996, 14). Startlingly, this corresponds with the notion of 'emasculated unionism' in capitalist firm elucidated by Boxall and Purcell (2003, 180) in their typology of employee voice.

Negotiation of wages is often regarded as the primary function of trade unions. This was not the case in the Soviet Union, where the collective agreement allowed very little worker or union discretion in the determination

of wages (Clarke and Fairbrother 1993a, 105). Although wages were fixed by the centre, management did have a certain amount of discretion in the allocation of wages through the setting of norms and the allocation of bonuses (*ibid*). The fragmentation of the workforce was also reproduced by means of setting norms.

In considering the reconciliation of disputes, the objective of the union was to anticipate workers' grievances in order to guarantee the smooth running of the enterprise. The fact that trade unions could not afford to involve themselves in the routine conflicts over the payment of wages or the organisation of production as unions do in the capitalist firms and the fact that conflicts were resolved within the management structures (Clarke 1996, 42), had serious consequences for the post-socialist time. Trade unions were not seen as defenders of workers in the true sense and this "legacy" – among other things associated with the "historical record" of Soviet trade unionism – may have contributed to the lack of trade unions' capacity to resolve these matters in the post-Soviet era.

During the Soviet time, both executive and managerial staff were united in the same union (Clarke and Fairbrother 1993a, 94; Nikula 1997, 129). Workers used to be dependent on the administration in negotiations over the production plan and the unity of shop-floor workers and administration was further reinforced by means of membership in the same 'branch' union. Moreover, the unions in the SU had a structural dependence on the management and the state and the dispositions towards conflict avoidance were nurtured within the paternalistic framework (Poole 1986, 156; Ashwin 2004, 20). Workers, management and the government had a common interest: increase production (Lane 1985, 37). Still, the interests of management and workers were opposite to those of the state where management and workers attempted to keep a plan over fulfilment within limits, which would permit the earning of bonuses without risking the re-evaluation of the plan by the central power (Ashwin 1996, 17). In short, one can conclude that even if workers succeeded to live with local managements in collusion, there was an evident clash of interests between them and the state. The Soviet worker enjoyed a bargaining position that provided him/her with more power than was originally intended by the authorities (Pietsch 1987, 129).

2.2.4 Control over labour process in the Soviet workplace

The Soviet mode of the labour process had some traits of *de facto* worker control of production that dated back to an acute shortage of skilled managers and specialists during industrialisation in the 1930s (Clarke 1996, 40). Moreover, compared to their Western counterparts, Soviet workers in general had a relatively strong position in the labour market due to labour shortages (Pietsch 1987, 126). Soviet labour was also rather well protected against dismissals, as lay off could only occur for two reasons: serious offences such as repeated drunkenness and as subject to rationalisation measures (*ibid*, 127).

While workers were given some degree of control over the labour process, it was not based on any collective organisation of workers but rather on a means of management to maximise resources with the intent to meet the plan targets (Clarke and Fairbrother 1993a, 99; Jensen 2003, 17). Generally speaking, the norm-setter, foreman and/or the brigadier worked out the production norms within centrally defined limits and with informal bargaining with the workers directly involved (Clarke and Fairbrother 1993a, 105-106). Line management also had a great deal of discretion in allocating work and distributing bonuses, which actually provided management with a means of control over individual workers in the absence of the sanction of dismissal (*ibid*, 106).

According to Burawoy and Krotov (1993) and Melin (1995b), there were special patterns of employee autonomy, which allowed for Soviet worker discretion in a particular manner. The “hoarding” of the reserve army of labour resulted in an ineffective use of labour resources. Also, the segmentation of workers into core and peripheral labour forces made it possible for (at least core) workers to affect the pace and space of work. Flexible working hours and autonomous work organisation made a lot of sense when adapting to a shortage economy (Burawoy and Krotov 1993, 75). Management did not interfere in the process of production on the shop floor but was rather interested in the fulfilment of the plan. Similarly, short work hours concealed the excess labour capacity of the brigade, which was easily mobilised when extra effort was needed at the end of the month.⁹ Though this method, known as *shturmovshina* (storming), workers were disciplined to meet the targets set by the plan and in cases of non-fulfilment, workers lost benefits and bonuses (Nikula 1997, 41).

The apparatus of workplace control, in which unions took part as key actors, drew upon the ideology that class took priority over sectional interests (that is to say, interests of workers’ or groups of workers) and production over consumption (Clarke and Fairbrother 1993a, 100). Workers on the shop-floor were not interested in maximising their effort but instead minimising the surplus they produced because of the fact that neither the worker, nor the enterprise, nor the association, nor even the ministry had any rights to the surplus produced (Clarke 1993, 26). Rather, the action of shop-floor workers – as well as the middle management – was concerned with concealing their productive potential in order to protect themselves from the exactions of the ruling stratum (*ibid*).

Melin (1995a, 37) observed that the transformation from the Soviet production regime to the capitalistic one brought with it a reduction in work autonomy. In 1985, more than a half of Estonian industrial workers expressed that their job required their own solutions, whereas in 1993, only 23 percent

⁹ Here, Burawoy addresses the workers’ autonomy as ‘anarchy in production’, implying ultimate control of workers over the labour process. Nikula (1997, 41) maintains that the negotiations concerning the plan and supplies and the state-of-art full employment in the latter phase, provided workers with power but in his opinion that was *individual* power. Basically, this meant that only indispensable (core) workers were able to extract concessions from the management as to wages and other benefits.

expressed this same view. But perhaps the change in direction was merely perceived, for the Soviet worker was forced to use his/her skills when needed. According to Melin (1995b), workers had to use their imaginations in order to keep machines running, since interruptions in production were usual, raw material was not always provided, and equipment was generally poor (Melin 1995b; Nikula 1997, 41).

2.3 The Nordic mode of the labour process

2.3.1 Background

Due to differences in geographical orientation determined by the course of industrial history, there is a distinctive Nordic cluster that clearly differs from the “conservative” regime of Central and Southern European countries and “liberal” regime of Anglo-Saxon countries. Although the globalisation era has coincided with a weakening of workers’ collective strength, the Nordic countries account for the highest scores in the representation index (ILO 2004a): *“The countries with high levels of representation security have relatively high levels of employment security and work security.”* According to Esping-Andersen (1994, 134), Nordic countries belong to the same “Nordic cluster” known for their union strength, social-democratic party power and universalistic social policy. This is mainly due to the historical symbiosis of such factors as (*ibid*, 138):

- A pre-existing, pre-industrial framework of social homogeneity
- A pervasive sense of consensus and solidarity
- A chronically weak and divided right
- An unusually strong symbiosis between centralised and universalistic trade unionism and social democratic parties capable of broad popular alliances.

Historical explanations for the distinctive Nordic model include the long traditions of Lutheran religion and social democracy. In terms of religion and language, nation-states in the northern periphery have been remarkably homogeneous. At the core of union mobilisation is its legitimacy in the society, from which one can draw parallels between union movement and the Evangelic-Lutheran state church. A typical wage-earner is usually a member of both the union and the church (Bruun 1990, 31). Social democracy has evidently played a major role in shaping nation-wide employment policies. In fact, the social democratic movement was based on the trade union movement, except for in Finland, where political *mobilisation* preceded union *mobilisation* (Bruun 1990, 23). In Sweden, the social democratic movement was given a boost by the centralisation drive of the employers’ confederation (Crouch 1993, 335). Social democracy, thus, has not necessarily acted as the cause for neo-corporatist arrangements but is rather a political manifestation of the state of industrial relations.

Along these same lines, Schiller (1993, 10) puts forth two explanations in addition to that of the Scandinavian welfare state and strong tradition of social democracy as constituting the Nordic model: a strong trade union movement in co-operation with a centralised employer organisation and a tradition of political consensus between the main political parties. Political consensus originates from the prevailing norm of social responsibility - with a concept of equality that is more modern and radical than in many other countries. This tradition-based Nordic distinction cannot be reduced to a certain model but can rather be understood as the *Nordic experience* of these principles (Schiller 1993; also Heiret 2003, 126, speaks of a *Norwegian experience*).

2.3.1.1 Co-determination

The Nordic model of industrial relations cannot be explained in its entirety without a reference to co-determination, for interpretations of this concept play a major role in determining *de facto* workers' control over the labour process. Broadly speaking, all union activity is associated with co-determination, that is to say, with the labour's search of restricting the employer's unilateral authority as to determining issues related to the enterprise and employees (Flodgren 1990, 66). Co-determination as a function of trade unions was recognised in Sweden in 1977, in Norway in 1980, but in Finland not until 1991 (Flodgren 1990, 67; Kauppinen 2005, 238). Danish trade unions are lacking a legal basis for co-determination and the actual mechanism of employee participation is directly dependent on the power of local actors (Knudsen 1995, 94).

The term co-determination is also related to *industrial democracy*,¹⁰ which has a long tradition in Scandinavian countries. As to the Nordic development in the sphere of industrial democracy, there was a revolution-inspired movement advocating 'economic democracy' after World War I, which demanded that control over the means of production should be divided between the capital and labour (Flodgren 1990, 65). Soon, these claims were used to promote 'industrial democracy'. The latter was not directed at company ownership, but rather implied that the employee, bearing only labour power, would exert quite a large influence on the employers' activity (*ibid*).

Labour influence and power is often assessed by means of trade union density. Figures from 2006 show that the density in Finland was 74 percent, in Denmark 80 percent and in Sweden 77 percent whereas in Norway the figure was lower (around 55 percent). In these four largest Nordic countries the membership figures appear as follows (Table 2.2):

¹⁰ In a broad sense, industrial democracy refers to the influence of employees on their working lives and *what and how they produce* (Hammarström et al. 2004, 263).

TABLE 2.2 Unionisation in Finland, Denmark, Norway and Sweden, percent (Industrial Relations in Europe 2006, 25-26; Raina 2003 [industrial sector in Norway])

Country	Overall unionisation (%)	Industrial sector unionisation (%)
Denmark	80	85
Finland	74	78
Norway	55	70 - 90
Sweden	77	88

Industrial relations in Nordic countries are marked not only by strength of organisation in terms of high rates of unionisation but also by membership in employers' associations, plus extensive coverage of collective agreements. Another common characteristic is the capability of self-regulated and autonomous labour market institutions to carry out decisions on labour market issues. Regulation is set by collective agreements and arbitration is dealt with by a collective labour court system. (Due, Madsen and Lubanski 2000, 6-7)

Characteristic of the Nordic welfare state is the three-dimensional model of trade unionism: academic staff, civil servants, functionaries and "workers" have all organised into unions of their own (Bruun 1990, 27). The model of private wage-earning has been extended by regulation to the 'new' groups (academics, functionaries). A distinctive feature of Nordic countries is the high union density among female workers and salaried employees (Stokke and Thörnqvist 2001).

2.3.1.2 Employee participation

Employee *participation* is a term that has been defined in various ways but has still managed to gain popularity as an analytical tool. It is regarded as capable of heightening employee autonomy and developing consent at the workplace. The term 'employee participation' embraces not only information and consultation, but also participation in workplace decision-making. I consider the term employee participation from the Nordic perspective in the same manner as Schiller (1998, 324) does: as a concept that bears similarity to the terms 'industrial democracy' and 'co-determination'.

There is a deeper, more profound meaning behind employee participation than the mere consideration of it as a subject of everyday struggle between management and union for the scope of participation. This is a labour process view of worker participation, which sees it as a tool for generating consent in participatory initiatives. To Burawoy (1979, 27), "it is participation in choosing that generates consent." It is possible for management to organise activities in such a manner that it appears as if they presented the worker with a real choice, however narrow the scope. On the other hand, participation can be considered as increasing worker solidarity and heightening workers' concerns with organisational injustice (Hodson et al. 1994).

Nordic labour movements again encountered new terminology that had no roots in the tradition of the countries' industrial relations during the ratification of the EU directive on information and consultation (2002/14/EC). While the term 'consultation' is not widely used, the concept of co-determination is much more rooted in their industrial relations structures. The Norwegian Basic Agreement 2002-2005 speaks of 'discussions' rather than of 'consultations'. Actually, co-determination laws have provided both Finnish and Swedish employees with relatively strong rights to participate in company decision-making, which allows them a level of influence not attainable for Baltic workers. In Sweden, for example, the Co-Determination Act stipulates that management must consult unions before any decisions are made on major changes in the company, ranging from reorganisation to the introduction of new technology (Hammarström et al. 2004, 264). Furthermore, a question arises who should be informed and consulted. In Denmark, there is a single employee representative body; a so-called co-operation committee (*samarbejdsudvalg*), which has to be elected in enterprises employing 35 salaried within a given geographic area. In Finland and Norway, the shop stewards' (executive) committee deals with these issues, whereas in Sweden, this task is directed to union delegation (*förtroendeman*).

Unlike in the cases of industrial democracy and co-determination, Nordic trade unions have exhibited ambivalent attitudes towards employee participation. Although employee participation plans such as quality circles and performance based salary systems are considered to enhance work satisfaction, it is also to be feared that they keep unions out or make collective bargaining and union representation less relevant (Schiller 1993, 61; Fleming and Thörnqvist 2003, 14). However, Nordic trade unions easily combine the schemes of direct participation with the shop steward system particular to the Nordic industrial relations system (Kettunen 2001, 259). There are particular concerns (Alasoini 1990; Pruijt 2003) that participation schemes can contribute to making the intensified (Japanese) production systems more socially acceptable among employees, when such 'fads' as direct participation and employee involvement are put into practice with the goal of producing commitment of the core workers to their workplaces.

2.3.1.3 The centralised bargaining system

The centrality of collective bargaining is key to understanding the Nordic industrial relations system. The Nordic model differs from that of continental Europe, where the main emphasis is placed on political regulation (Due, Madsen and Lubanski 2000, 2). By contrast, in Nordic countries the self-regulation of collective bargaining must be taken into account. It is difficult for foreigners to understand the profound impact that collective bargaining agreements (CBAs) have on employee relations in the Nordic countries. Sweden is a prime example, since it has a union structure that is considerably free from state intervention (Stokke and Thörnqvist 2001; Elvander 2002). There is no

minimum wage set by the collective agreements but wages have traditionally been negotiated between the employers and unions.

In 2007, the European Court of Justice (ECJ) condemned the Swedish Building Workers' action against the Latvian construction firm *Laval un Partneri* as illegal. This ruling was a strike to the heart of the system. Swedes had taken for granted the fact that collective agreements defined the employment relations at the workplace level and that no employer was entitled to undermine the system, until a foreign supplier disguised as a 'Trojan Horse' shook this belief. If the decision by the ECJ leads to a wider undermining of the 'norm', the consequences of the ECJ's decision may be more far-reaching than foreign spectators anticipated.

Collective bargaining was centralised in the Nordic countries during the 1950-1970s. In the Nordic countries in general, the dominant bargaining level has shifted back to the sectoral level. The centralised bargaining system has been under increased pressure by the employers from the beginning of the 1980s.¹¹ In Denmark and Sweden the central employer associations have attempted to stop central bargains and move to either a branch or company level (Crouch 1994, 212; Köykkä 1994). Norway has followed suit in a more modest manner (Crouch 1994) and the Finnish centralised bargaining system encountered the largest attack by employers in the 2000s (Jokivuori 2008). The Swedish SAF has adopted a policy where (employers and union) organisations become lobbies not requiring any formal rules. This would mean an end to the established co-administration system (Crouch 1994, 213). When a rightist government came to power in 1991, Swedish business circles were able to implement extremely militant deregulation in terms of industrial relations (*ibid*).

I consider the re-emphasis of the bargaining locus onto the local level as capital's intrinsic desire to deregulate industrial relations systems. Simultaneously, this can be seen as congruent with the historical trajectory of the labour process in the Nordic countries. In the current industrial situation (which is far from craft-based), the goal of the Nordic employer is not to restore craft unionism. Instead, the Nordic employer strives to sever the links between workplaces representing the same trade and simultaneously extend employer power to areas that have been extensively under union influence. The move from 'personnel administration' to HRM has meant a shift from humanistic personnel management, which advocates stability, commitment and security, to a more proactive role for personnel professionals at a higher company level (Mabon 1995, 65-66; Vanhala 1995, 45). I would theoretically agree that the shift

¹¹ In 1980, Sweden experienced its largest industrial dispute, when a strike stimulated an employer lockout of 80 percent of the workforce. Some observers assert that this conflict symbolises the end of the Swedish model and its spirit of cooperation as well as the era of relatively peaceful central collective bargaining (Hammarström et al. 2004, 266). However, the lockout proved to be a failure for employers, and they assumed a view that wage solidarity has gone too far with the employers losing ground within the central model (*ibid*).

from personnel administration to HRM would result in some of the 'lost' commitment needs being reproduced again by active HRM measures.

2.3.2 'High road' to economic growth

It is easy to place Nordic countries within the Varieties of Capitalism (VoC) typology described in Chapter 3.1. According to Bruno Amable's (2003, 91) analysis of divergent capitalisms that is concerned with the social system of innovation and production (SSIP), all these three countries embody the social-democratic SSIP, where

social partners' interests are well represented by trade unions and professional associations and they are sufficiently powerful to negotiate mutually advantageous compromises. A reactive education and training system gives a well-trained and competitive workforce. The economies close to this type are small open economies prone to adapting to external competitive conditions in order to maintain a high standard of living. A comprehensive Welfare State insures individuals against the risks associated with work reorganisation. The economies concerned have a competitive advantage in health and environment-related activities.

Norway has recently moved from the social-democratic SSIP in the direction of the market-based SSIP – a group comprising such countries as the United States, Great Britain, Canada and Australia.

An alternative way of expressing the underlying idea of the varieties of capitalism is to offer corporations and governments the role of actor rather than assuming they are mere passive reflections of either "coordinated" or "liberal" market economies. One can promote an actor-centred approach to management and the government by introducing the idea of a *low road* and a *high road* to economic growth. Hyman (2004, 414) summarises this idea as follows: "...there is a 'low road' and a 'high road' to competitive success: firms may attempt to compete on the basis of low cost or of high quality." This idea can be extended onto a state level through concepts of VoC or the "competitive state".

Schiller (1993, 59) emphasises that the peculiarities of a society affect managers' and employees' attitudes alike:

A Nordic employer, having grown up in a country where trade unions are well established and an acknowledged part of society, could rightly be expected to have a somewhat different set of values than an American employer who has learned to regard unions as a nuisance and an impediment to free enterprise.

Employers have learned to live with the strong rights of workers, an occurrence which Whitley (1999, 69) relates to a skill-based labour management in Nordic countries. Skill formation and its accompanying system of social regulation seem to be key a factor in determining whether an economy takes the "high road" or the "low road" (Peck 1992, 334). According to Peck, the "low road" fosters short-terminism and reluctance to invest in either skills or technology, whereas the "high road" obviously results in a more sustainable economy with high standards of social protection for workers and collectivised economic systems. Therefore, institutions facilitating the creation and sustaining of an

adequate skills base enforce employers towards a “high road” to employee relations and employment security.

Germany may well serve as a primary example of the long-lasting effects of the investment in training and skill formation of the whole workforce. The German ‘pattern’ of labour relations implies that firms tend to prefer competitive strategies based on high quality and flexibility, high-skilled labour and high capital intensity, long-term employment commitments and consensual labour relations (Bluhm 2001, 154). Still, there is doubt whether German multinationals transfer this “high road” to employment practices in their Central and Eastern European (CEE) subsidiaries. Bluhm (2001) has found that among German enterprises, the large multinational firms are more prone to retain the German pattern of employment relations in shifting production to CEE countries, while the situation of SMEs remains unclear.

According to Gradev (2001, 15), SMEs tend to prefer the low road approach. Which road do Nordic manufacturing companies choose? Would they promote the variations of HRM or “welfare capitalism,” or implement the “five-lane low road” of *increasing rationalisation and standardisation* of products and work organisation, *low trust*, *low skills* and *low wages* of employees and increasing *union antipathy* as is seen in US fast-food restaurants in Europe? (Royle 2004, 68.) Milkman (1998, 38) has stated that most US firms are following the low-road path in fostering low-wage, low-trust and low-skill labour. They are doing this despite the fact that a few US firms and many additional firms in other nations having adopted the ‘high road’ approach have fared far better in serving the long-term interests of both corporations and employees. This pessimistic view exhibited by the bulk of American employers raises the question: from where does the desire to cultivate the low-road policy originate, given the overwhelming evidence on the benefits of the high-road approach? Is the ultimate goal of employers to implicitly control the labour process by means of strict discipline, thus confirming the notions of the labour process school?

2.3.3 The foundation of Nordic trade unionism

It is worth noting that industrial relations in the Nordic countries have developed toward industrial-based unionism, although a strong guild tradition was in place by the 20th century. Denmark constitutes an exception, as a more diverse structure of trade unionism has endured there, with a mixed system of both trade-based and industrial unions. To some extent, the lack of industrial unions in Denmark has been compensated in part by the introduction of the so-called ‘cartels’ in bargaining. In both Sweden and Norway, the industrial principle became predominant during the first decades of the 20th century. The consolidation of industrial unionism was related to the rapid growth of the industrial sector. In Finland, a profound breakthrough took in place between 1905-1907 when over 20 trade unions were established. In 1905, certain principal decisions were made, in which the union movement took a turn towards industrial unionism and when the idea of a common manufacturing union was rejected. (Bruun 1990, 25)

A feature that is common to all Nordic countries is their formation of a state that was broadly neutral towards guilds (Crouch 1993, 318). Schiller (1993, 60) reminds us that during early Scandinavian industrial development, there were norms of mutual recognition and limited co-operation in communication between the employer and unions. This was the case not only in handicraft and small enterprises but also in heavy industry, which differentiated Scandinavia from other parts of Europe and the U.S. However, questions should be raised about the future trajectory of the Nordic union movement given the fact that in all Nordic countries skilled, relatively well-situated labour and craftsmen (tailors, shoemakers, graphic designers, painters, bricklayers) have acted as pioneers of the trade union movement. First, the transformation from guilds to unions is regarded as a process of succession, in which trade unions replaced the former representation form. Second, this is explained by reformism within the Scandinavian labour movement, and the strong position of the so-called 'labour aristocracy' within the movement. The endurance of wage gaps between the skilled and unskilled workers has been explained through this viewpoint and also by the obvious radicalism in the Finnish trade union movement with reference to the large portion of industrial workers within the movement. (Bruun 1990, 24)

Regarding trade union development, the Finnish trade union movement can be seen as 'backward' compared to other Nordic countries. In contrast, the Danish movement was in a class of its own in having developed a skeleton of an articulated union movement at an early stage. A decision made at the Scandinavian labour congress in Stockholm in 1897 acted as a catalyst for the creation of a national central organisation, which implied that one could speak of a "Scandinavian model" from the very beginning (Bruun 1990, 23). Confederations were established in succession: first, the Danish *De Samvirkende Fagforbund* (later LO) was formed in 1898 as well as the Swedish LO, the Norwegian LO in 1899 and the Finnish SAK not until 1907. Denmark was the first state among Nordic countries to acknowledge the workers' democratic right to unionise in a national agreement between capital and labour in 1899 (Crouch 1993, 89). This agreement (*Septemberforliget*), worked out between the employers' confederation and *De samvirkende Fagforbund*, regulated the conflict at the nation-state level – and essentially represented the greatest progress made in European industrial relations development at the turn of the 20th century (Knudsen 1995, 81; Crouch 1993, 80).¹² Denmark had the advantage of being a small society and perhaps the agreement achieved at the national level was comparable to that of the British engineering industry two years previously (Crouch 1993, 80). Similar types of agreements, occurred in Norway and Sweden in 1935 and 1938, respectively. Finland joined the Scandinavian countries in this respect during World War II (Bruun 1990; Schiller 1993; Kauppinen 2005).

¹² In the neighbouring country, Germany, a state level institution of the system of *Arbeitsrat* was introduced a year previously (1898), which allowed elected commissions of workers to run the pensions and social insurance schemes (Crouch 1993, 85). This arrangement concerned company-level industrial relations and all workers irrespective of membership in trade unions.

At the turn of the 20th century, compared to Denmark, industrial relations could be characterised as “rudimentary” in Norway and Sweden (Crouch 1993, 92), let alone in Finland, which was characteristically a peasant society at that time. Although unions were hesitant to move collective bargaining to the national level in Norway and Sweden until the 1930s, bargaining was growing at the branch level (Crouch 1993, 103-105). In Sweden, it is worth mentioning that the employers weaned the craft-based unions away from local to branch-level agreements and even wanted to create nation-level institutions. However, unions expressed a hesitant attitude towards these proposals (Crouch 1993, 105). One landmark of state-level organisation was the mutual recognition of central organisations (LO and SAF) in 1906.

Finnish industrial reconstruction occurred on a large scale only after the Second World War, when national consensus had to be established between opposing political camps because of the difficult geopolitical situation (Crouch 1993, 177). While Denmark, Norway and Sweden had shifted to the stage of neo-corporatism with extensive consultative and administrative arrangements between unions and employer organisations, the main pattern of industrial relations in Finland was characterised by contestation and state-imposed centralised bargaining (Crouch 1993, 180-184). At this stage, Finland did not resemble its Scandinavian counterparts, but rather Belgium or the Netherlands in the state-controlled character of its wage-fixing machinery (*ibid*, 204).

There is one feature in the development of Finnish industrial relations that distinguishes it from other Nordic countries: the strong standing of the Communists in the central organisation SAK from 1945 to the 1980s (Elvander 2002). An obvious reason for this is the legacy left by the Civil War in 1918 and repression of communism in the inter-war years (*ibid*).

Eventually, in the 1960s, Finland was on its way towards the Scandinavian model. Employers began organising in a manner similar to other Nordic countries and the government attempted to move from contestation to pluralism (Crouch 1993, 232). After the era of centralised income policy agreements began in Finland in 1968, many features of the ‘Nordic model’ became a reality (Kettunen 2004, 299). There remained, however, obvious ‘low trust’ elements in industrial relations until the 1980s, as reflected in high strike incidence compared to other Nordic countries (Kettunen 2004, 292).

In general, the organisation of employers ran congruently with trade union development in Nordic countries. There was, however, some incongruence in Sweden due to the fact that the employer organisations sought to adopt a tough line against trade union movement at the beginning of the 20th century (Crouch 1993, 92). By the First World War, Danish and Swedish employers were especially engaged in very tough struggles against organised labour, calling nation-wide lock-outs in their demand for centralisation (*ibid*, 107). Employers’ organisations were different in Scandinavian countries, however. Swedish industry was increasingly dominated by the large-scale export sector, and with a strong emphasis on forestry (the latter was

characteristic of Norway, as well), whereas in Denmark and Norway, organised employers consisted of small, formerly handicraft firms (*ibid*).

Crouch (1993, 114) maintains that despite the different points of origin for employer organisations, the form of organisation converged at large in all Scandinavian countries. Danish employers organised themselves as a result of industrial disputes in the last years of the nineteenth century. Norwegian employers united in the aftermath of the collapse of the all-class coalition fighting for independence in 1905. Swedish employers sought to unite in the aftermath of a general strike to achieve the suffrage in 1904.

Differences exist between the mediation systems of different Nordic countries. Due to their long-lasting liberal tradition, Denmark and Norway were able to develop strong institutions of conflict resolution through legislation (in 1910 and 1914 respectively), whereas in Sweden, the mediation institute (founded in 1906) appeared much weaker than in other Nordic countries. The Finnish National Mediator retains somewhat wider powers than the Swedish one, although it is based on a fairly analogous system of dispute settlement (Elvander 2002). The key events framing the development of the Nordic political and industrial relations systems are exhibited in Table 2.3.

TABLE 2.3 Timing (years) of key events in the Nordic political systems and labour market regimes (Elvander 2002)

<i>Event</i>	<i>Denmark</i>	<i>Norway</i>	<i>Sweden</i>	<i>Finland</i>
National independence	Continuous	1905	Continuous	1917
Universal suffrage	1915	1913	1920	1906
Parliamentarism	1901	1884	1917	1917
Social Democratic dominance	1929	1935	1932	1937
Major trade union confederation	1898	1899	1898	1907/1930
Major employers' confederation	1896	1900	1902	1907
Major white-collar confederation	1952	1977	1944	1944
Professional associations' confederation	1950	1950	1947	1950
Basic Agreement	1899	1935	1938	1944
Law on mediation	1910	1915	1906	1925
Law on collective agreements	-	1915	1928	1924
Law on labour court	1910	1915	1928	1946

A crucial development from the trade union's perspective – Nordic ones in particular – was the development that took place in Ghent, where trade unions were given responsibility to administer the public unemployment insurance system (D'Agostino 1992, 40; Crouch 1993, 85).¹³ Denmark, Finland and Sweden (along with Belgium), which have introduced and maintained the Ghent system, are the only countries among 20 OECD members to increase their trade union density since the 1970s (OECD 2004, 144; Visser 2006). The Ghent system was adopted in Nordic countries in the following sequence: Norway in 1906,

¹³ The insurance fund system administered by unions was adopted as Belgium's national policy, and similar systems were introduced in several European countries prior to World War I. Provided with the Ghent system, unions were able to carry on the medieval tradition where guilds had assisted and supported their unemployed members by means of so-called gifts or travel benefits (D'Agostino 1992, 40).

Denmark in 1907, Finland in 1916 and Sweden in 1934, although Norway replaced its prior system with a state insurance system in 1938 (D'Agostino 1992, 40-41). It should be noted that Norway, the only Nordic country currently not under the Ghent system, has a trade union density of only little above 50 percent whereas in the other three Nordic countries this figure sits at 70-80 percent (Visser 2006). Today, in Finland and Sweden, it is possible to be affiliated to the fund without having to join a union. This has not caused massive departure from the unions, although the appearance of independent funds constitutes the major reason for the 10 percent union decline in Finland between 1993 and 2002 (Böckerman and Uusitalo 2006). D'Agostino (1992, 3) commented on independent unemployment insurance by noting: "in practice, unions tend to make this possibility troublesome and it is probably unknown to many workers, especially new entrants on the labour market".

2.3.4 The northern European experiments in industrial democracy

Before any post-Fordist ideas penetrated Scandinavia, there was a period of industrial democracy that has had carry-over effects for social relations even to this day. In the Nordic countries, Fordist mechanisation and the structural rationalisation of industry led to discontent and confrontations (Schiller 1993, 60). Mostly these were individual protests in the form of employee turnover and abuse of sick leave but wildcat strikes also took place. Partially as a reaction to the protest movement, employers introduced programmes and experiments of industrial democracy, engaging workers in teamwork and semi-autonomous work groups (Schiller 1993, 60-61; Ryner 2002, 134). Implications from this epoch resulted in initiatives such as Norwegian Industrial Democracy Programme in the early 1960s, launched jointly by the Norwegian LO and the Norwegian Employers' Confederation (Gustavsen and Hunnius 1981, 42-44; Sandberg 1982, 5), and the social-technical experiments introduced in Sweden by the central union organisations and the employers' organisation. It took about five years before similar development took place in Sweden (Sandberg 1982, 153). Sweden is perhaps the most famous country among its peers for its firm-level experiments in the framework of work humanisation in the beginning of the 1970s (Julkunen 1987, 49).

One experiment based on the ideas of the 1970s was Volvo's Uddevalla factory, which Julkunen (2008a, 99) regards as offering an alternative to the Japanese production models that were inherent in the new forms of work organisation. The plan was to set up the factory with a system of computer controlled carriers as used in another Volvo plant in Kalmar. However, when the legendary chief executive Per Gyllenhammar and the unions intervened, the new plant was established in a totally new fashion: the Metalworkers' Union participated in the planning from the beginning in brainstorming sessions and as members of the project group, making a real contribution to the design of the plant (Berggren 1989; Pruijt 2003).

The Uddevalla Factory contributed in a genuine way to job enrichment policies shaped in the 1970s. Besides, the 'Volvoist' management approach

instituted a more voluntary group participation than, for instance, quality circles (Frohlich and Pekruhl 1996, 7). At SAAB factories, so-called autonomous working groups (AWG) were introduced during the 1970s (Sandberg 1982, 192; Mabon 1995).¹⁴ Also, an essential feature of this Scandinavian model was the fact that the groups selected their own members: the qualifications of group members were mixed to enable learning from each other; and that groups had large autonomy with regard to the design and execution of work (Frohlich and Pekruhl 1996, 7). I would argue that these Scandinavian experiments may be regarded as a pure manifestation of *anti-Taylorist* programmes, which include socio-technical systems design, industrial democracy and humanisation of working life (see Pruijt 2003). Frohlich and Pekruhl (1996, 83) summarised it as follows: “it was a joint union-management undertaking which aimed at increasing industrial democracy in parallel with productivity improvements.”

A clearly anti-Taylorist experiment at a Volkswagen Factory at its Salzgitter plant in 1975 was similarly important in the development of the labour process. Instead of using a conventional fixed speed assembly line with task cycles, Volkswagen began a small-scale experiment with groups of workers de-coupled from the machine-paced line. The workers received special training so that they were able to carry out all team jobs. Also, they were free to rotate job assignments as they wished. This arrangement resulted in contradictory outcomes from the management’s point of view with regard to industrial relations. Although the informally elected workgroup leaders were supposed to be capable of seizing union influence, they were instead converted to shop stewards. This, in turn, made the management decide to bring back foremen to monitor the groups. Additionally, the enlarged jobs caused a dispute between union and management over wages. Volkswagen concluded that they did not want a bulk of re-skilled workers and ended the experiment in 1978. (Littler and Salaman 1984, 83.)

Although the heyday of the experiments in industrial democracy is over in Nordic countries, the findings of the fourth wave of European Working Condition Survey (EWCS) indicate that Nordic countries still display an affinity to the rotation of tasks. Although overall tasks rotation may show variation that is not possible to attribute to any country ‘group’ such as the Nordic or Baltic countries, more specific questions, such as whether tasks require different skills and whether work teams are autonomous in deciding the division of tasks, provide a clearer picture of the actual situation. Tasks required different skills in the opinion of 51 percent of employees in Sweden, 42 percent in Denmark and 35 percent in Finland, whereas this was true of 45 percent of employees in Estonia, 41 percent in Latvia and 36 percent in Lithuania. But regarding the team’s discretion upon the allocation of tasks, Nordic workers appeared to have

¹⁴ The AWG system was characterised in terms of job rotation, enlargement and enrichment. As Mabon (1995, 72) puts it, “Rotation is the routine variation of simple duties, while enlargement involves the combination of duties to a broader, more meaningful, entity. Enrichment could be regarded as the only genuine form of AWGs; the job is not only enlarged but also empowered in that the employees can control and manage the process as well as a number of ancillary duties.”

a greater autonomy: 45 percent of Swedish, 42 percent of Danish and 35 percent of Finnish workers claimed that the team decides tasks division, whereas 24 percent of Latvian and 20 percent of Estonian and Lithuanian workers agreed upon this. In comparison, Baltic countries reported similar findings to Southern and Eastern European countries, where the team's discretion upon task division was much lower than in the Nordic countries, the Netherlands and the UK. (Employment in Europe 2007, 151.)

2.3.5 Prospects of the Nordic model under globalisation

During the Fordist growth and the golden age of trade unionism in the post-war years, Nordic mass production was highly dependent upon demand in the world economy, while consumption was highly dependent on imports (Eliasson and Johansson 1994, 100; Ryner 2002, 68). Mass production in the Nordic countries was also relatively undiversified, whereas domestic consumption was diversified and capital accumulation was largely trade dependent. Moreover, the simultaneous expansion of productivity and real purchasing power contributed to 'autocentric' accumulation, where the productive systems were highly self-referential and differential, and where selective forms of economic intervention (industrial policy in Norway and Finland, labour market policy in Sweden) and corporatist arrangements were possible (*ibid*, 67-68).

Kettunen (2004, 294) speaks of a *virtuous circle* between competing interests and economic growth, social equality and extending democracy within a national society in reference to Nordic societies. Traditionally, the idea of *parity* has been widely accepted, where workers are acknowledged as the weaker party in the individual employment relationship and which would require protection through legislation and collective agreements to abolish (*ibid*). However, in the Nordic context, collective agreements take precedence over direct statutory regulation, while both employer organisations and union confederations have adopted wage moderation and the limitation of industrial conflict as primary goals (Stokke and Thörnqvist 2001).

On the other hand, high product demand, scarce labour and strong worker organisation sometimes push employers to try forms of control allowing a higher degree of worker autonomy (Thompson 1983, 126). Such high levels of worker autonomy were achieved at car factories during the experiments of industrial democracy in Sweden and Germany in the 1970s and 1980s. In such circumstances, the frontier line between force and consent is re-defined but the resulting situation may prove unbearable from the managerial perspective. According to Littler and Salaman (1984, 83-84), there were difficulties at Volkswagen's Salzgitter plant in resolving the basic tension between the need for control and the need for employee participation, while similar difficulties were evident as far as high-performance work systems (HPWS) were concerned (Godard 2005, 169).

The much adhered and referred to 'Volvoist' arrangements gradually came to an end. Those production processes at Volvo and SAAB, in which

AWG systems were introduced, have been closed since the beginning of the 1990s (Mabon 1995, 71-72). Due to massive unemployment, the workforce at the automobile industry was amenable to more 'flexible' and cost-effective production arrangements. Therefore, the drive to change the workplace had diminished drastically and consequently Swedish car manufacturers began applying Japanese engineering techniques in order to increase productivity (*ibid*, 73). There are aspects to flexible employment policies that bring management onto a collision course with unions. The employers are willing to sacrifice a secure Swedish employment system for the sake of 'flexibility' (Mabon 1995, 80). Moreover, Ryner (2002, 161) proposes that in Sweden:

Globalisation has weakened the ability of trade unions and other social groups to realize an alternative accumulation strategy based on norms of de-commodification. As a result, the dominant trend of socio-economic restructuring [...] corresponds to the preferred trajectory of Swedish capital: a neo-liberal post-Fordism.

According to Kettunen (2004, 303), some of the determinants behind the increasing asymmetry between "labour market parties" in the new era include: the multinational and transnational character of companies; networked companies; increase of so-called "atypical" employment; and the difficulty in setting the boundary between wage work and entrepreneurship. This list contains very basic elements of the post-Fordist production model, which leads one to conclude that organisation of work plays a significant role in the transformation of employment relations. Post-Fordist management arrangements are also gaining ground in Nordic companies, where employee relations have changed from predominantly collective to more direct and individual forms, and industrial relations from predominantly industry-based to company-based forms (Fleming and Thörnqvist 2003, 10).

2.4 Spatial subdivision of the labour process

Maximisation of profits drives manufacturers to a spatial division of production. Milberg (2004) speaks of an "international disintegration of production", denoting the dissolution of the production process into different parts and locating these parts in different countries. Such a restructuring of processes draws not only upon the disintegration, but also upon the inequality of different parts of the process for the sake of competitiveness and the "natural" evolution of economies. Closely related is Paul Krugman's (1996, 91) notion of the Ricardian concept of comparative advantage (cited in Buckley 2004, 42), according to which, the loss of manufacturing competitiveness is a natural consequence of economic maturity. Mature economies promote services instead of manufacturing, but on the other hand, they can enhance manufacturing that is capital-intensive. These economies further seek to maximise the exploitation of the country's comparative advantage through the

relocation of low-cost labour manufacturing operations that are sufficiently close, as based on the *vertical disintegration of production stages*. Buckley (*ibid*) emphasises that this provides the economic rationale behind the integration of the Southern European countries within the EU (as well as Eastern European ones, as will be further discussed).

According to Fröbel et al. (1980, 34-36), (a) the development of a world-wide reservoir of potential labour power is an essential process in the accumulation of capital compounded by; (b) the development and refinement of technology and job organisation that makes it possible to decompose complex production processes into elementary units; and (c) the development of technology which renders industrial location and management relatively independent of geographical distance.

It is worth noting that while the old horizontal division of labour occurred between sectors, a second vertical division was encountered within industrial sectors, superimposed between levels of qualification. The redistribution of industrial tasks into the levels was not a relation between the regime and its exterior but rather a form of reorganisation of the regime of accumulation (Lipietz 1986, 31). A likely direction of development is towards *flexible accumulation*, which embraces flexible production, casual labour, withdrawal of state interventions, deregulation and privatisation. Still, this may prove a problematic periodisation, since there is a trend towards trans-national production "that links not only to a new scale of economic but a new economy of scale" (Pun and Smith 2007). Pun and Smith draw upon evidence from China, where a particular 'dormitory labour regime' has emerged and where the space of work-residence and mass production are reconfigured on a global scale. Such extensive mass production predominates in East Asia, whereas smaller-scale batch production is a more likely option in the Baltic States.

The spatial subdivision of the labour process is based on the difference in social relations of production across regions. Transnational companies take advantage of regional variation, shifting different segments of production to separate locations partly on the basis of the availability and character of labour (Oberhauser 1990). Elaborating on Braverman's (1974, 120-121) deskilling thesis, we can assume that in the Baltic context, the tendency of capitalist production is to ensure that as the craft declines, the worker sinks to the level of general and undifferentiated labour power, whereas conception (science) tends to be concentrated in the hands of management. The main difference between Braverman's argument and mine is that while Braverman considers the degradation of skills and conditions *within the factory* or *within the industry*, I see managerial choice as an option for investment in peripheral regions, which are beyond the grasp of unions and where processes are not necessarily intended to be upgraded. Johansson (1997, 203) anticipates:

...this process will lead to an increased polarisation and dualisation between the countries surrounding the Baltic with respect to investment patterns and economic structure. The Baltic States will be "locked in" to labour-intensive production...

A world-wide reservoir of potential labour-power already existed in the 1970s in geographical areas such as Asia, Africa and Latin America and the socialist bloc (Fröbel et al. 1980, 34). Also, firms located in socialist countries were integrated into the production process of capital by means of subcontracting on behalf of capitalist firms. This study explores the position of post-socialist labour power in similar types of subdivided labour process, although this time, the production chains concerned are ones in which the case companies are not mere suppliers but direct subsidiaries of Nordic parent companies.

2.5 Control over the labour process

As far as labour process theory is concerned, it is essential to expound the control aspect or in other words, discern what shape the labour process does take as management seeks to transform labour power into labour. Both management and labour participate in negotiating the 'frontier of control' on work-related issues, although I assume management has a more determinant role. I agree with the notion of management as "agents for, or bearers of, an economic logic that demands that labour is controlled and directed" (Reed 1989, 12). Naturally workers also seek to gain control over the labour process, or at least are involved in defining its frontiers. Burawoy (1985, 10) identifies three institutions that shape the balance of power on the shop floor: collective bargaining coordinates the interests of workers and management: the grievance machinery constitutes workers as industrial citizens with rights and obligations: and the internal labour market produces a possessive individualism. These institutions all limit the workers' struggle and restrain management from its authoritarian impulses.

As the frontier of control has been more in favour of labour in the Nordic countries than in most other geographical regions, the position of the workforces in the labour process is degraded through downsizing in the Nordic home country and relocating to a neighbouring country that has an abundance of undifferentiated labour power. The polarisation trend between skilled core labour and unskilled peripheral labour does not tend to result in the optimisation of a 'competitive edge' for nations – as an institutional or VoC perspective would assume – but instead would appear to alleviate employers' strategies in gaining control over the labour process. According to Oberhauser (1990), the reorganisation of the French automobile industry resulted in spatial reconfigurations that drew upon social and spatial divisions of labour, which eased capital's control over labour in core and peripheral countries.

As far as this thesis is concerned, the scrutiny of control includes both trans-national and local levels. The focus on trans-national levels takes the stance that strategic choices are made in the parent company. This level is concerned with corporate-level managerial control that deals with the problem of labour commitment to corporate priorities (Reed 1989, 40). However, it also takes a stance towards strategic planning that concerns the role of subsidiary

(Dörrenbächer and Gammelgaard 2004). As posited by Lane (1989, 116-117) the local level of control can be gauged according to the delegation and direction of the labour process, which concerns wages, allocation, material flows, jobs, training and rotas in different operations. On the factory level, shop-floor workers can participate in defining the frontiers of control over the labour process, or the national labour movement can assist them in their activity. However, for the time being, any notable global labour movement with the capacity to negotiate the conditions of the whole production chain has not emerged.

2.5.1 Control over the whole value chain

In response to increased global competition, manufacturing companies have adopted two strategies or 'roads' to investment and labour management. The first is the "high road." Provided that the labour process in the Nordic countries is organised around the ideals of 'responsible autonomy' of workers, it is possible that small-batch production in the Baltic States would be accompanied by a production policy based on post-Fordist idea of 'flexible specialisation', as occurred in the *Emilia-Romagna* region in Italy (Piore and Sabel 1984). The research setting allows one to make conclusions on whether 'flexible specialisation', consisting of a network of small, craft-based shops occurs throughout the value chain. All of the researched companies were small or middle-sized companies (the number of employees ranging from 50 to 250) with the exception of one large metalworking subsidiary that employed 700 workers. In the case of the large metalworking firm, the production process was based on production shops and labour was characteristically well-qualified, thus there was the potential to upgrade the production process analogously to Nordic systems of production.

Another option is the "low road." Do Nordic manufacturers jump at the opportunity to take advantage of the lower wage levels, as Eliasson and Johansson (1994, 81) assumed Swedish companies operating in the mature goods-producing sectors (such as the engineering and textile industries) were doing? What happens in process production and seasonally diversified production? The comparison between sectors is related to the research setting and it is possible to make conclusions on the position of the Baltic production unit on the basis of industrial sector. Lower wages *per se* do not imply the opting for the "low road" but when it is accompanied with a low degree of employee discretion (restricted employee autonomy) and downgraded processes, and with deteriorated working conditions and separation of conception from execution, one may assume the "low road" strategy has been chosen.

In cases where the "low road" is adopted, firms need to keep a certain part of the production process downgraded. Typically, this means that standardised production in a peripheral unit complements operations that require higher skills in another. As an example of this tendency, Dörrenbächer and Gammelgaard (2004) reported that German-owned multinational companies

had upgraded the role of their Hungarian subsidiaries very little during the first ten years of transition in terms of market, product and value-adding activities. This advanced headquarters' governance over both domestic units and foreign units, while former ones could be kept under control by threats of downgrading or relocation¹⁵ and latter ones by means of direct control and 'externally' defined budgets.

Apart from the vicious circle of 'concession bargaining' at the multinational company's home country caused by the threat of relocation, spatial restructuring also makes union control over the production process more difficult. According to Kern and Sabel (1994, 229), trade union recruitment has traditionally been easier when research, marketing and production have been carried out in the same complex. When the production site is isolated from the headquarters, the connection between these three areas breaks down. Peripherally located production units in particular, might remain beyond the reach of a labour movement.

Although the labour processes in the Nordic principal companies are not analysed in this research, they are set against a background of Nordic "regime," where labour is treated as de-commodified and functionally flexible. The labour relations at the Baltic subsidiary are compared to the ideal of the Nordic regime. In truth, Nordic plants nowadays also face threats of closures and the processes are intensified but the historical compromise between capital and labour still prevails. The features of the Baltic regime are elaborate, where parallels between the labour process at the Baltic subsidiaries and the local regime are elucidated. One cannot forget path-dependency (the transition from state socialism to capitalism) in the Baltic context. Although both capital and labour are by nature universal and more or less similar structures and modes of action recur in different geographical contexts, historically unique compromises achieved by trade unions are not recurring in different regimes.

2.5.2 Control over the local processes

In this study, the term 'frontier of control' is used in assessment of power relations at the plant level. Here, the frontier of control is examined using (1) Ramsay's (1980, 1985) thesis on 'cycles of control' and (2) Friedman's (1977) accounts of direct control (DC) and responsible autonomy (RA) as a framework.

It is possible to test the validity of Ramsay's (1980) 'cycles of control' model in employee relations in the processes relocated from Nordic coordinated market economies to Baltic liberal market economies. The former - Nordic "regime" - is characterised by high union density and collective

¹⁵ Firms may also threaten to move the skills-intensive part of the process to subsidiaries, while co-existence of upgraded processes seems to be a rarity when it comes to the vertical production chain. In 2004, German multinationals threatened to relocate production to the new member states on a large scale if the government did not comply with the manufacturing industry to cut costs (Hunya 2004b). Their idea was to move more complex and technologically sophisticated processes into existing subsidiaries. This never materialised, since the investment level seemed to remain low (*ibid.*).

agreement coverage, a comprehensive social security system and employee protection legislature. The latter regime is roughly an opposite to the Nordic model in terms of unionisation, collective bargaining, social security and legal provisions. Ramsay (1980) stresses the historical character of employee participation arising from 'cycles' of working class resistance that creates periodic crises of management legitimacy. In this process, management is looking for longer-term ideological gains (Ackers et al. 1992). Once the culmination point of employee participation has passed, "the once celebrated participation initiative quickly falls into disuse, as management quietly loses interest in it" (*ibid*). In this thesis, the idea of shifting labour power is interpreted as a spatial continuum (from a Nordic regime to a Baltic one) rather than as a trajectory of labour power in an individual regime.

A. Friedman (1977, 78) took the tension between direct control (DC) and responsible autonomy (RA) into scholarly consideration. The extremes show to what extent the employer maintains close supervision over employees' activities, and to what degree the employer allows employees to take responsibility for their own work (Marchington and Parker 1990, 230). The ideal type of DC combines simple job design with strict monitoring of tasks where it minimizes individual workers' responsibility. RA provides workers with greater variety and length of tasks, indirect supervision and ostensible control over their jobs. In doing this, it is capable of harnessing "the adaptability of labour power by giving workers leeway and encouraging them to adapt to changing situations in a manner beneficial to the firm" (*ibid*). To some scholars (Marchington and Parker 1990), Friedman's differentiation between direct control and responsible autonomy has provided the most useful extension to Braverman's (1974) analysis of management control.

Marchington and Parker (1990, 81) further developed the idea of two ideal types of DC and RA along Friedman's (1977) lines, asserting that the ideal types never exist as pure forms. DC does not allow for supervising workers at all times and all work, no matter how unskilled they are, since they always contain some degree of subjectivity. RA is neither possible in its pure form since it never totally removes the problem of managing labour and subjecting it to alienation, although it softens its operation. Burawoy (1979) speaks of 'specific combinations of force and consent', in regards to labour control. Hyman (1987) argues that "...the notion of labour control involves *both* the direction, surveillance and discipline of subordinates whose enthusiastic commitment to corporate objectives cannot be taken for granted *and* the *mobilisation* of the discretion, initiative and diligence which coercive supervision, far from guaranteeing, is likely to destroy." At any rate, RA is not free from discipline: self-autonomous workers are often surrounded by a variety of normative, market, bureaucratic and technical forms of control, where the worker takes responsibility for market failures (Julkunen 2008a, 167).

Management has to make a strategic choice between these two extremes of the control dimension. The DC/RA dichotomy is not historically specific but these are strategic options of employers' at any time (Thompson 1983, 134). The

utilisation of DC/RA is sensitive to the connections between management strategies and product and labour market conditions (Thompson 1983, 134; Marchington and Parker 1990, 81). There are alternative promising categorisations,¹⁶ which, however, do not connect strategies that spring up from labour and product market as directly to the managerial control.

2.6 Summary

Over the span of the 20th century, there have been different trends and managerial innovations concerning the capitalist labour process (Thompson 1983; Julkunen 1987; Penn and Sleightholme 1995; Frohlic and Pekruhl 1996; Jaros 2001; Thompson and Smith 2001). Let us outline the basic differences between the three distinct modes of the capitalist labour process: Taylorist, Scandinavian and Japanese. The modes of Taylorism (diversified tasks, strict control) and Fordism (mass production for mass market) have been characteristic for both capitalist and socialist labour processes. Taylorism-Fordism changed into more participative forms of work organisation through experiments of industrial democracy (Volvoism) towards lean production (Toyotism) and post-Fordism (flat structures in flexible production). Although these 'ideal types' of the capitalist labour process concern first and foremost automobile industry, they serve as benchmarks for other types of production as well.

It is interesting that the experiments of industrial democracy flourished in Scandinavia, especially at the Volvo and SAAB factories. Clearly, there were unions alongside management to determine the rules according to which group work was organised, thus reflecting the domestic societal conditions (Frohlich and Pekruhl 1996, 83). This seems to support the path-dependent idea that "institutions matter" in the transformation of work organisation.

Ideal types of the capitalist mode of labour process are compared in Table 2.4.

¹⁶ E.g. Edwards's (1979) typology consists of simple, technical and bureaucratic controls. Edwards's schema are more sensitive to sectoral and historical variation of the labour process than the simple dichotomy between DC and RA (Hyman 1987). According to Michael Burawoy, Edwards's 'simple control' underlines the *relational* dimension of work, whereas the 'technical control' implies the *instruments of work* and the 'bureaucratic control' indexes the *political apparatuses of production* (Burawoy, M. [1984] *The Contours of Production Politics*, Berlin: IIVG Publication Series, quoted in Hyman [1987]). Other typologies include Child's (1984) four strategies of control, personal centralised, bureaucratic, output and cultural ones; and others emphasizing normative and ideological control.

TABLE 2.4 Ideal types of the capitalist labour process compared (modified on the basis of Frohlich and Pekruhl 1996, 86 and Pruijt 2003, 84)

Work organisation Feature\	Fordism	'Volvoism'	'Toyotism'
Relation to Taylorism	classical Taylorism	anti-Taylorism	neo-Taylorism
Qualification	highly specified	mixed; jobs larger, less demarcation	unitary, 'generalists'; job larger, less demarcation
Task complexity	simple tasks; strict division of labour	rather complex; functional flexibility	little, short cycled; functional flexibility
Power balance	conflicts and games	management accepts some measure of worker control	nearly unlimited management prerogatives
Autonomy and influence	non-existent; managers decide	large; all team members can participate in decision-making	narrow; only the team leader can participate in decision-making
Group formation	no emphasis on 'teamwork'	voluntary participation; the composition, task allocation and selection of the leader determined by the group	mandatory participation; the composition, task allocation and selection of the leader determined by management
Technical and logistical context	technical discipline, e.g. short-cycled work on the assembly line; buffers a way of dealing with imbalances caused by the rigid division of labour	tendency to alleviate technical discipline, e.g. to find alternatives for the assembly line; buffers help create conditions for autonomy	technical discipline, e.g. short-cycled work on the assembly line is not seen as a problem; no buffers
Wage system	the variable part of the wage is in a predictable, bureaucratically regulated way related to performance	pay on the basis of proven skill level; no group bonuses	individual bonuses based on assessments by supervisor on how deeply a worker cooperates in the system; group bonuses

Although experiments in industrial democracy took place in Sweden, Finland has profited from never being subject to large-scale Fordist mass production, even though the heart of its manufacturing industry consists of a capital-intensive forest industry, mechanical engineering industry, highly specialised vehicular industry and light consumer goods industry (Kasvio 1994, 39). A late-comer, like Finland, Norway's, industrialists and legislators were forced to take the needs of fishing trade and agricultural society into account when considering job design and social legislation (Thorsrud and Emery 1971, 10-11).

In the state socialist labour process, there were official and unofficial managerial systems in operation side by side, the latter being characterised by unofficial links between functionaries and enterprise management as a consequence of deficiency of resources. Workers did not seek confrontation with their foreman or shop chief but rather identified with the chief in competition with other shops and in struggles with the administration (Clarke 1993, 19). Workers laid blame on the system rather than the management when confronting shortcomings in the production and reward structure. In a way, the Soviet system fostered a real unitarist view of mutual interests between labour and management. Individual and collective interests were confined within the limits of the informal 'production pact', based on common interest in

maximising the resources available to the enterprise and in attaining plan targets (Clarke and Fairbrother 1993a, 99).

The question as to whether Soviet workers had greater autonomy than capitalist workers is debatable (Burawoy and Krotov 1993; Melin 1995b). It may be said that production workers lacked autonomy at work on one hand, but had it on the other. The allocation of tasks (assigning plan tasks to individuals and brigades) and pay for those tasks was the responsibility of the foremen but the actual conduct of production was the responsibility of production workers (Clarke 1996, 42). Workers did not question the manager's right to manage, although they might question management's competence (*ibid*). Workers were not able to decide upon the pace of work in all workplaces (Jensen 2003, 18).

Today, a relatively homogeneous regime of 'management sovieticus' has changed into the disintegration of the management culture along national and regional lines within the FSU (Liuhto 1999, 43). The perceived national managerial culture will be shaped by three elements: old customs, new situations and the heritage of Soviet management (Liuhto 1993, 39). Consequently, there will be a distinctive Baltic management culture that will shape the labour process at Baltic workplaces. The ongoing trans-national reorganisation of world production generates new forms of labour regime and workplace relations (Pun and Smith 2007). This supports the idea that spatial patterns are not merely a consequence of social relations but these partially condition social relations (Herod et al. 2007). Although both capital and labour are by nature universal and more or less similar structures and modes of action recur in different geographical contexts, their institutional framework, in part, defines labour conditions. The question, "what kind of labour regime is emerging in the Baltic context?" is considered in Chapter 3.

3 THE BALTIC LABOUR MARKET REGIME

This thesis presupposes that the business and labour market environment into which a Nordic investor enters is different from the one in the homeland. Although one can argue that management strategies play a significant part in shaping 'peripheral' labour processes, it is too straightforward to assume that the international division of labour is only the product of the organising activity of multinational companies (Lipietz 1986, 23). Rather, Lipietz (*ibid*) states, "the objectives of these firms articulate with the ambitions of the dominant classes of some national economies." With regards to the policy-making level, the 2004 accession to the EU has obviously left an imprint on the institution- and nation-building of these countries. Also, the adoption of Western ideas under the banner of 'Washington consensus' has had an impact.¹⁷ Aside from these actor-centered arguments, there is a transitional, 'path-dependent' idea that Baltic political and economic development stems from the post-Soviet past of these republics.

How to approach the societal and institutional context in which the Baltic labour process is embedded? The concept of *labour market regime* is useful in this regard. In brief, the concept of 'labour market regime' embraces (Elvander 2002):

...the totality of a country's labour market relations, from the workplace to the central political level where the political conditions for the development of labour relations are decided, such as general economic policy, labour market and incomes policies, labour law, etc. The scope and main direction of policies directed to the labour market will be an important element in comparisons between regimes or groups of regimes.

¹⁷ This economic package of policy recommendations, originally conceived in various Washington-based institutions (the IMF, the World Bank, the US Treasury) to revitalise crisis-ridden Latin American economies in the mid-1980s, was offered to CEE countries after the collapse of the SU. It contained such elements as strict fiscal discipline, restricted public expenditures, tax reforms, financial liberalisation, competitive exchange rates, trade liberalisation, low tariffs, elimination of barriers to FDI, privatisation of state enterprises, deregulation to free the economy and secure property rights (Berend 2009, 42-44).

The regime concept is useful in comparative studies, and it has some parallels with such concepts as 'industrial relations (IR) systems' or 'IR models'. A difference between the IR concepts and the concept of 'labour market regime' resides in the fact that the latter affords the state an active role. Agreements are also important by this definition: "The proportions between law and agreement are different in different types of labour market regimes" (Elvander 2002). Furthermore, the labour market regime presupposes some degree of permanence, or 'path-dependency'. Historical trajectories have been essential for the shaping of Nordic labour market regimes (*ibid*). Before going more deeply into the features of the labour market regime itself, let us consider Baltic economies in more general terms of varieties of capitalism.

3.1 The Baltic Capitalism

The VoC (varieties of capitalism) paradigm has deserved much attention in societal and institutional literature (see e.g. Whitley 1999, Hall and Soskice 2001; Amable 2003). The basic argument follows the idea that although some convergence may exist, diversity is crucial in the examination of economies. Economic globalisation may be seen as a converging factor between different capitalisms. Whitley (1999, 9), however, suspects whether the era of globalisation may have imposed convergence in capitalisms, although recognises that divergence has largely been due to the national protection inherited from institutions associated with Bretton Woods 1944. The VoC standpoint is important in the examination of national contexts and it is valuable to this research as well. One must wonder, as Schiller (1993, 50) does: "where the company is?" Firms as profit- and policy-makers are located out of the scope of VoC specification simply because their production processes and division of labour are geographically dispersed, supply chains lengthened, subcontracting extended, and their headquarters moved abroad.

Central to the VoC paradigm is the distinction between liberal market economies (LMEs) and coordinated market economies (CMEs). In particular, Hall's and Soskice's (2001) account on them has gained much popularity. LMEs occur in countries where the market and price signals are the main coordination method for firms in various institutional domains, whereas CMEs show institutional design facilitating strategic coordination 'beyond' markets (Buchen 2005). Let us specify the concepts of CME and LME according to Hall and Soskice (2001, 39-40), through four public spheres in which firms must develop their relationships.

TABLE 3.1 Four public spheres that distinguish coordinated market economies and liberal market economies

	CME	LME
1. Industrial relations	Consensus decision-making; employees guaranteed with cooperation	Individual relationships between worker and employer
2. Training systems	High skill levels; company-specific, special technical skills	Focus on general skills; 'certification'
3. Corporate governance	Reduced sensitivity to current profits; long employment tenures	Rapid hiring and firing; radical transfer of technologies
4. Inter-firm relations	Dense networks of inter-corporate linkages; relational contracts with other firms	Based on standard market relations and formal contracts

Alternatively, Amable (2003, 104-106) introduces five types of capitalism: market-based economies, social-democratic economies, Asian capitalism, Continental European capitalism and South European capitalism. Out of these five divergent types, the first (market-based economies) is similar to Hall and Soskice's (2001) category of LMEs, whereas Hall and Soskice's CME ideal type is closest to social-democratic and Continental European capitalisms with their high importance of quality competition, coordinated wage bargaining, active employment policy, relatively strong unions, high level of social protection, high level of public expenditure, high enrolment rates and emphasis on specific skills (Amable 2003, 104-106).

The distinction between Baltic and Nordic countries seems quite clear in VoC consideration. Since the restoration of their independence in 1991, Estonia, Latvia and Lithuania have chosen a very different political, economic and social path from their prosperous Nordic neighbours that are classified as CMEs in VoC literature (Amable 2003; Hall and Soskice 2001; Whitley 1999). Particularly in the Baltic States, "the paradigm of neo-liberal reconstruction has been actively implemented in the last decade and a half" (Woolfson 2007). Neo-liberalism has triumphed in general within CEE countries because of the disillusionment associated with state socialism (Nissinen 1999, 20). Paas et al. (2004, 4) propose that the social protection systems of the Baltic States do not exactly mimic any of the social production models developed in other regions of Europe.

TABLE 3.2 Baltic, Anglo-Saxon, and Scandinavian social protection and labour market institutions juxtaposed (Anglo-Saxon and Scandinavian models adopted from Ebbinghaus [2002], the Baltic one by Paas et al. [2004])

	Baltic	Anglo-Saxon	Scandinavian
Social security	Liberal, oriented on social insurance and tax transfers	Liberal welfare state, increased privatisation	Universal welfare state, oriented on social services
Welfare state financing	Average, financed by taxes on wages	Average, financed by taxes and private investments	High, financed mainly by taxes
Labour market regulations	Regulated, no emphasis on life-time employment	Deregulated	Regulated, lifetime employment
Bargaining system	Decentralised wage negotiations, small unions	Decentralised wage negotiations, small unions	Coordinated wage negotiations, centralised unions, high union density

At a glance, it appears that the Baltic States lie somewhere between the Anglo-Saxon and Scandinavian models in terms of social protection, although the Baltic model is more oriented to means-tested, that is, an Anglo-Saxon direction, than towards a universal model, which is the direction followed by the Scandinavian model. It is hard to place the Baltic societies in either an Anglo-Saxon or Scandinavian regime in terms of labour market institutions. Although the strictness of employment protection legislation in the Baltic States is close to the EU average and far from that of the US (the archetype of LME), there is evidence suggesting that law enforcement is not effective enough to monitor seemingly wide-spread breaches of employment protection laws (Eamets and Masso 2005). The levels of unemployment benefit in relation to average wage are among the lowest in comparison to other CEE countries (UNECE 2003). Therefore, one can argue that the Baltic States, in general, represent LMEs rather than CMEs. This notion is further supported by Baltic bargaining systems that are decentralised with small unions.

Industrial relations is the realm in which Baltic and Nordic countries differ most from one another and which strongly implies that the former are LMEs and latter CMEs. Trade unions have not played as significant a role in social reforms in the Baltic States as they have in the Nordic countries. The marginalisation of the unions and the downward spiral of union recognition in the national social dialogue are accompanied by a drastic drop in union density. Unionisation rates in the Baltic States are 9-18 percent, about a quarter of the workforce is covered by collective agreements and wage bargaining occurs predominantly at the firm level (Antila and Ylöstalo 2003; Eamets et al. 2005; Hazans 2005, 178; Kallaste and Jaakson 2005). Union density in Denmark, Finland and Sweden ranges between 70 and 85 percent (Ebbinghaus 2002, 468-469; Schnabel and Wagner 2007, 8) and the coverage of collective agreements is even higher. Union density in Norway is around 55 percent, which differs from other Nordic countries. The coverage of collective agreements is higher.

The distinction between Nordic and Baltic countries is seen in taxation as well. While the former have heavy progressive taxation through which the relatively comprehensive welfare subsidies can be afforded, the latter has a relatively low, flat tax rate. For the sake of comparison, income tax in Finland is between 0-60 percent, corporate tax is 26 percent and labour costs at least 25 percent of wages (Kauppinen 2005, 322). In Estonia, income tax is 21 percent, corporate tax 0 percent for reinvested earnings and 21 percent on dividends, while VAT is 18 percent (FINPRO 2008c, 5). In Latvia the income tax is 25 percent, corporate tax is 15 percent and the value-added tax is either 18 percent or 5 percent, depending on product (FINPRO 2008a, 5). In Lithuania, VAT is 18 percent and corporate tax 15 percent (FINPRO 2008b, 5).

The Baltic States share many features with other CEE countries, including an unprecedented economic depression after 1989, the drastic effects of the end of obligatory union membership, the decline of the old manufacturing sector and the challenges of building unions in a post-communist society in which capitalism is popular but the effects of primitive capital accumulation are not (Ost 2002, 34). One can argue that voters “think left but vote right,” as Pabriks and Purs (2002, 83) point out with respect to Latvians. As to the disparity between voting behaviour and desired outcomes of politics, the present depression that began in 2008 will perhaps change the state of affairs. As soon as the labour market changed from tight into loose, employers proposed to cut salaries by up to one third, particularly in Estonia. This policy-making may lead to industrial unrest not encountered in the post-Soviet era of high economic growth. Signs of social unrest are already visible in the Baltic States, especially in Latvia, which has been the most severely hit by the economic depression.

Key differences between the Baltic and other CEE countries derive from history. The Baltic republics were extremely isolated from the West during the Soviet time, which made it possible for the post-1990 governments to launch transition processes without any major concern regarding social tensions or political reluctance to change based on references to welfare state practices in Western Europe (Török 2006). Therefore, a basic distinction between the Baltic republics and the other CEE countries is that the former did not inherit social institutions that would have restricted the transition into capitalism, while the latter had relatively inflexible labour market regulations, in place (Török 2006; Whitley 1999, 230). Estonia and Slovenia represent different extremes within CEE countries of the VoC ‘scale’, the former being LME and the latter CME (Buchen 2005). The pioneering country among the Baltic States in economic reforms, Estonia falls clearest within the category of LMEs. Estonia is characterised by a dominance of firm-level agreements, weak unions and employers’ associations, no co-determination measures, lowered employment protection legislation, and an unemployment protection level comparable to the British (*ibid*).

3.2 Employment trends

Following the collapse of the Soviet Union, there was a sharp decline in the demand of labour and therefore also in employment rates in the Baltic States (e.g. Philips and Eamets 2003, 112-113; Gruzevskis and Blaziene 2003, 172-173). However, there has been a modest recovery in the employment rate from 2001 onwards (Landesmann et al. 2004, 26). By 2003, the rate was similar to the EU-25 average (63 percent) in Estonia, and slightly below this in Latvia and Lithuania. In 2006, the rate had increased sharply, as the figures were 68.1 percent for Estonia, 66.3 percent for Latvia and 63.6 percent for Lithuania, compared to the EU-27 average of 64.3 percent (Employment in Europe 2007). In other words, Estonia and Latvia were able to surpass the average EU level of employment rate, whereas Lithuania was near to the EU average.

When comparisons of full-time employment figures for the Baltic States were made to those of the EU-15, the figures were in favour of the Baltic States: full-time employment was 61-62 percent in Estonia, Latvia and Lithuania, whereas it was 58 percent in the old member states of the EU. (Landesmann et al. 2004, 27) There was a relatively high female employment rate – 57-58 percent in 2003 (for men it was about 66 percent) – ten percent higher than in the EU-15 (*ibid*, 28). In 2006, the gap between female and male employment seemed to be narrow, as the employment rates in Estonia were 65.3 percent for female workers and 71 percent for male, 62.4 percent and 70.4 percent, respectively, in Latvia and 61 percent and 66.3 percent in Lithuania (Employment in Europe 2007). Corresponding EU-27 figures in 2006 were 57.1 percent employment for females and 71.6 percent for males, which implies that the female employment rate is still significantly higher in Estonia and to some extent, in Latvia and Lithuania than in the average EU country.

TABLE 3.3 Employment and unemployment rates (%), and employment in services, industry and agricultural sectors (% total employment) in Estonia, 1997-2007 (Employment in Europe 2008, 234-235)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Employment in services	57.9	58.2	60.0	59.7	60.4	61.9	61.6	59.5	61.0	62.0	60.7
Employment in industry	33.0	33.0	32.0	33.2	32.8	31.2	32.3	34.7	33.7	33.1	34.6
Employment in agriculture	9.1	8.8	8.0	7.1	6.8	6.9	6.1	5.8	5.3	4.9	4.7
Employment rate (15-64)		64.6	61.5	60.4	61.0	62.0	62.9	63.0	64.4	68.1	69.4
Unemployment rate (15-64)	9.6	9.2	11.3	12.8	12.4	10.3	10.0	9.7	7.9	5.9	4.7

Strong economic growth has been at the root of relatively low unemployment rates in Estonia compared to other CEE countries. The highest unemployment rate was in the North-East corner of Estonia and the smallest in central Estonia. This small area is populated mostly by Russian-speaking people, who are

presently facing threats of downsizing in large textile manufacturing plants such as Kreenholm. The peak of unemployment was reached in 2000, when the rate climbed to 12.8 percent. The rate was less than half, reaching 4.7 percent in 2007, but is once again increasing due to the recession 2008-2009.

TABLE 3.4 Employment and unemployment rates (%), and employment in services, industry and agricultural sectors (% total employment) in Latvia, 1997-2007 (Employment in Europe 2008, 248-249)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Employment in services	53.6	55.9	58.0	59.8	59.2	60.4	60.8	60.9	62.3	61.8	62.0
Employment in industry	25.3	25.5	25.5	25.9	26.0	24.8	25.9	26.5	26.5	26.8	28.2
Employment in agriculture	21.0	18.7	16.5	14.3	14.8	14.9	13.3	12.5	11.2	11.4	9.9
Employment rate (15-64)		59.9	58.8	57.5	58.6	60.4	61.8	62.3	63.3	66.3	68.3
Unemployment rate (15-64)		14.3	14.0	13.7	12.9	12.2	10.5	10.4	8.9	6.8	6.0

The Latvian workforce is well-educated and highly qualified. The level of education is relatively high - in 2002, 20 percent of economically active inhabitants had attained tertiary-level education and 64 percent had secondary education, while the rates in the EU were 24 percent and 46 percent, respectively (Homko 2003, 25). The supply of workers was scarce in certain sectors, especially in the capital region, where one-third of the population is concentrated. Wages were lower in Latvia than in Estonia and Lithuania but younger workers particularly had received wage increases. Still, many workers had sought a second job due to low salaries. There were different unemployment rates in different regions, the highest reaching 20 percent in some eastern regions. (FINPRO 2005a, 10). As in Estonia, Latvia's unemployment rate dropped drastically prior to the recession that started in 2008. Although it peaked at 14.3 percent in 1998, it fell to 6.0 percent by 2007.

TABLE 3.5 Employment and unemployment rates (%), and employment in services, industry and agricultural sectors (% total employment) in Lithuania, 1997-2007 (Employment in Europe 2008, 250-251)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Employment in services	54.3	52.2	53.5	54.7	55.8	54.9	54.2	56.2	57.1	58.1	59.0
Employment in industry	28.1	28.6	27.2	26.7	26.9	27.3	28.0	28.0	28.9	29.5	30.2
Employment in agriculture	17.6	19.1	19.3	18.7	17.2	17.8	17.8	15.8	14.0	12.4	10.8
Employment rate (15-64)		62.3	61.7	59.1	57.5	59.9	61.1	61.2	62.6	63.6	64.9
Unemployment rate (15-64)		13.2	13.7	16.4	16.5	13.5	12.4	11.4	8.3	5.6	4.3

According to some criteria (enrolment rate in tertiary education, public spending on education), the Lithuanian workforce is among the most highly educated within the EU (The World Bank 2004, 46). Still, an obvious skill gap exists in the Lithuanian labour market. There is a shortage of qualified professionals in some areas, which is, among other reasons, due to low prestige of professional training (*ibid*, 48). Also, a wide gap exists between urban and rural areas in Lithuania in terms of unemployment rate. The worst rate is observed in the agricultural and forestry sector, followed by the rate among industrial workers. Lithuania has experienced the most dramatic fall in unemployment rate among the Baltic States: a drop by two-thirds in five years. Whereas the rate was 16.5 percent in 2001, it was only 4.3 percent in 2007.

3.3 Labour conditions

When referring to 'Baltic labour', a cheap-labour aspect comes easily to mind. One can observe the difference between Baltic labour costs and Nordic ones in Table 3.6, where Sweden serves as an example of Scandinavian expenses.

TABLE 3.6 Comparison of employment costs, Euro (Baltic Rim Economies 2005)

Country	Pay	Social security	Total Pay and benefits
Belgium	36,527	12,667	53,577
Sweden	36,363	11,891	52,800
Poland	6,495	1,307	8,257
Estonia	5,687	1,877	7,621
Lithuania	4,247	1,317	5,649
Latvia	3,799	915	4,752
China	1,445	851	2,368
India	1,654	304	2,024

In light of this comparison, it is understandable why the Baltic States have been such an attractive target for Nordic investment: in 2005, the labour expenses in Sweden were seven times higher than in Estonia, and 11 times greater than in Latvia! But in real terms, the situation for Baltic workers was not enviable, for income and labour related benefits in Latvia amounted to only twice that of Chinese workers and in Estonia, no more than three times the Chinese standard.

Recent development in Baltic States has amounted to pay raises that have proven unsustainable. Although the rising wages have stagnated due to the current financial crisis, still in 2006, the highest annual rise in wages and salaries among the EU-25 occurred in Latvia (19 percent), followed by Estonia (14.9 percent) and Lithuania (13.2 percent) (Traser 2006, 33). The 2007 figures were even higher: 32 percent in Latvia, 20 percent in Estonia and 21 percent in Lithuania (Carley 2008, 20). Yet in 2006, the difference in wages between the Baltic and Nordic countries had remained wide: while the average wage in

Finland was 2,300 Euro, it was 653 Euro in Estonia, 489 Euro in Latvia and 501 Euro in Lithuania (Heliste et al. 2007, 154). In considering wages in Baltic manufacturing, the temptation to invest in cheap labour remains strong: the corresponding wages were 564 Euro in Estonia, 381 Euro in Latvia and 402 Euro in Lithuania, in 2006 (Baltic Facts 2007). There are considerable differences in wages between the capital and countryside in these countries: in Tallinn, wages were on average, 100 Euro higher than in other regions, whereas the difference between Riga and other Latvian regions was 150 Euro. There was also a remarkable gap between wages in Vilnius and other regions of Lithuania (Heliste et al. 2007, 154).

Aside from wages, which still remain considerably lower than in the Nordic countries, the Baltic States compete by means of overhead costs. Estonian employers pay 33 percent of the social security fees per worker (of which 20/33 is transferred to the national pension fund and 13/33 to the health insurance fund). In addition to this, the employer pays 0.6 percent of each worker's gross salary to the unemployment insurance fund, whereas the employee must pay 0.3 percent of his or her salary to the fund. (FINPRO 2008c, 5.) The social security payout is the lowest for the employer in Latvia, where the employer covers 24 percent and the employee 9 percent (in relation to the gross wage of the worker). is the overhead costs account for 34 percent of the salary in Lithuania, 31/33 of which is paid by the employer and 3/33 paid by the employee (Exportrådet 2005, 21). The highest employment costs (wage and social fees) in the EU occur in Belgium and the lowest in the Baltic States and Slovakia (Baltic Rim Economies 2005).

Along with the real income, purchasing power and the impact of the inflation rate must also be addressed on the earnings examined. In 2007, the inflation rate was 10 percent in Estonia, 14 percent in Latvia and 8 percent in Lithuania (Carley 2008, 20). In 2008, the highest inflation in the whole of the EU was in Latvia, (16.7 percent year-to-year) (FINPRO 2008a, 9). The double digits values of inflation were expected to continue into 2009 in Latvia, whereas the expected inflation rate in Estonia and Lithuania was expected to stay at 5-6 percent (World Economic Outlook October 2008, 68-70). The fact that inflation was running high in Estonia and Latvia but not in Lithuania may simply be due to the fact that the purchasing power is already the lowest in the latter country – for example, the ability to buy a kilogram of butter with an average monthly wage was two times better in Estonia than in Lithuania, whereas Latvia was in between (Baltic Facts 2007, 111).

Work has been intensifying lately in each Baltic country. According to the Baltic Working Environment and Labour (BWEL) survey by Woolfson et al. (2008), 54 percent of respondents in Estonia, 55 percent in Latvia and 53 percent in Lithuania reported that their work intensity or pace of work had increased significantly or slightly during the previous 12 months. This trend seems to have continued and strengthened since Antila and Ylöstalo's (2003) Working Life Barometer, which used a portion of the same questionnaire and gave the

respective countries such figures as 42 percent, 44 percent and 45 percent with regard to pace of work (*ibid.* 155).

The Baltic States were at the top of the EU-27 when comparing working hours. Romania ranked first with an average of 44 hours per week, while the newly accessed EU member states – Estonia, Latvia and Lithuania among them – made up a cluster in which employees spent on average, 40 hours or more per week in their first and second jobs (Employment in Europe 2007, 140). Estonians spent roughly 40 hours, whereas Lithuanians 41 hours at work. Latvia had one of the longest work weeks within the EU with long working hours being increased further between 1999-2003 from about 40 hours to 42 hours a week, on average (Hazans 2005, 169). Companies had much less discretion for CEE or South European workers in terms of working time arrangements than for UK, Irish or Continental European workers, let alone Scandinavian ones. Among the 2004 accession countries to the EU, 10 percent of the European Working Condition Survey (EWCS) respondents reported that they were able to adapt their work hours within certain limits and 5 percent were able to determine work hours themselves. There were corresponding figures in Southern Europe as well. By contrast, in Denmark, Finland, the Netherlands and Sweden, the corresponding figures were 37 percent and 13 percent, respectively (Employment in Europe 2007, 131).

The BWEL survey reported incidences of hazardous physical working conditions deriving from extreme temperatures, noise and vibrations, poor lighting, lack of appropriate working space, as well as exposure of toxic fumes and chemicals. Also reported were psycho-social stress factors regarded as significant by respondents: fatigue (one fifth to over one third of respondents), stress (a quarter to over a third), vision problems (one in ten to one in four), anxiety (one in ten to one in four), headaches (one in ten to one in four), irritability (one in six to one in four) and problems associated with sleep (one in seven to one in four of the respondents). (Woolfson et al. 2008.) In Latvia alone, Hazans (2005, 179-183) found that accidents at work were under-reported, working conditions had deteriorated among blue-collar workers and there had been no major improvements in working conditions in five years.

3.4 Segmentation of labour

A few years ago my Latvian friend told me that she had come to a dead end in the labour market. She was a 50 years old manufacturing worker without any knowledge of the Latvian language. She had no chance of finding a better workplace in an environment where her employer exploited her by paying her minimum wage and not allowing her any discretion in deciding upon work hours. The exploitation was possible because her employer was aware that there was nowhere else for her to seek employment. Unfortunately, this anecdotal experience of discrimination on the basis of one's age and/or nationality is commonly seen in the post-socialist labour process.

3.4.1 Segmentation based on age

Even though one cannot speak always in terms of age discrimination in the Baltic States, there is a prevailing *atmosphere of uncertainty* that is experienced particularly by those who started their work service in the Soviet system, where the whole concept of unemployment was unknown (Antila and Ylöstalo 2003, 254). Older workers are accustomed to this to some extent: there was always a dualistic labour market in the Soviet Union, with a majority adhering to the ideal of retaining one's job for life and a minority of very mobile employees (Clarke 1996, 5). The latter consisted mainly of the young seeking a place to settle and unskilled manual workers moving in search of higher earnings.

The privatisation process and restructuring of working life drastically changed the role of elderly workers. In the Baltic States, the absence of elderly people from some occupations was caused by a shortage of suitable jobs. Common to all three countries was the fact that younger workers were more in favour of change than their older counterparts (Antila and Ylöstalo 2003, 252). It appears that job uncertainty concerned certain social groups more than others. In Latvia, it was reported that older employees felt more insecure than younger ones, those living in urban areas more than those in rural areas, private sector employees more than public sector workers and Russians more than Latvians (Vītoliņš 2001, 92-93). Furthermore, the figures in all other age groups than 25-34 year-olds imply that there are as many people who report worsened working conditions as those who report improved conditions (during the five years prior to 1999), which suggests a segmented labour market (Hazans 2005, 179).

According to the findings of the survey produced by ILO's Socio-Economic Security Programme, the workers of Eastern Europe and CIS countries were afraid of old age income insecurity (ILO 2004a). Employment security weakened all across the region and many workers were put on casual or temporary work statuses; many of them thinking that they were unprotected against unfair dismissal or against short-notice retrenchment, particularly in small firms. Similarly, the findings of the Living Conditions Survey within the framework of the Norbalt II project showed a high level of insecurity: in 1999, 43 percent of Estonian, 56 percent of Latvian and 59 percent of Lithuanian respondents answered "yes" to the question: "do you feel that during the next two years your present job could be threatened by business closure, staff cutbacks or other factors?" (Vītoliņš 2001, 92).

3.4.2 Segmentation based on nationality

Russian-speaking populations – be they Russians, Belorussians or Ukrainians – are gradually developing their own 'diaspora identity' within the Baltic States, based on linguistic as well as socio-political grounds (Vedina and Vadi 2008). Due to a deliberate Russification policy in the Soviet Union, considerable populations of minorities emerged in each Baltic State, with Latvia receiving the highest amount of Russian-speakers at the end of the 1980s (40 percent of the total population). After the collapse of the SU, a portion of the Russian-speaking

population left the Baltic countries but the majority of them remained. Due to citizenship policies nurtured in the Baltic States, the nationality issue is of concern for Russian-speaking people, causing problems to be with their sense of national identity (Vedina and Vadi 2008). The fact that Lithuania had the smallest proportion of Russian-speaking inhabitants following the fall of the Soviet empire obviously had an impact on its “softer” citizenship policy. Lithuania allowed citizenship for all people residing in the country before July 1991, whereas Estonia and Latvia cultivated more restrictive policies.¹⁸

Unemployment among Russians in Latvia is more common than among Latvians (FINPRO 2005a, 10). A positive trend is seen in work conditions in Estonia. According to an opinion poll conducted between 1998 and 2002 (Antila and Ylosalo 2003, 229-230), meaningfulness of work, gender equality, self-development opportunities and empowerment in one’s job have continued among Estonians but stagnated among other nationalities. A similar differentiation is seen in Latvia between nationalities. The situation in Lithuania is an exception, since the overall trend tends to be more negative than positive. Still, minority nationalities experience trends in work life more negatively than the Lithuanian majority does (*ibid*, 244-245). Overall, one should remember that the general trend, even in the group of “other nationalities” in Lithuania is still positive. However, the future outlook was not seen as positively in 2002 as had in the four previous years.

The Russian-speaking population has resorted to trade unions, especially in Estonia. The membership rate among minorities (23 percent) is more than two times greater than among Estonians (10 percent). There is not a big difference in membership rates between the predominant nationality and other nationalities in Lithuania, where the unionisation is at 14 percent for “the others” and at 11 percent for the predominant nationality. In Latvia, no difference exists at all between nationalities. (Antila and Ylöstalo 2003, 69-70.) The gap between nationalities with respect to unionisation rate in Estonia has widened, whereas it has narrowed in Latvia and Lithuania. In Estonia and Latvia, “the others” refers mainly to Russians and to some extent Ukrainians but in Lithuania the mixture of nationalities is more diverse: there are significant minority groups of Poles, Belorussians and Ukrainians.

Left-wing views together with job dissatisfaction and union instrumentality may be seen as incentives for non-union workers to join unions

¹⁸ According to the principle of “legal continuity”, Estonia granted automatic citizenship rights only to pre-war citizens and their descendants. Soviet-era settlers and their descendants who wished to gain citizenship were required to undergo a process of naturalisation, that is to say, take an oath of loyalty to the Estonian republic, possess a basic (which was not specified) knowledge of the Estonian language and to have resided permanently in Estonia for two years after March 30, 1990 (Smith 2002, 72). In Latvia, ethnic relations between the titular nation and Soviet immigrants deteriorated due to restrictive ethnic politics. The resolution passed as early as October 15, 1991 only the pre-war citizens and their descendants became citizens of the restored republic (Pabriks and Purs 2002, 72). The law enabling the former Soviet immigrants to naturalise was passed in July 1994 (*ibid*, 73). The requirements for gaining citizenship were about as strict in Estonia. The strict requirements were relieved in 1999.

(Charlwood 2002). We have already learned that there is room for job dissatisfaction, at least among the secondary sector in the Baltic States. But the idea of “leftism” is much more problematic to examine in the Baltic context, since the issue of leftism is sensitive in the Baltic republics due to the Soviet occupation. In this context, one may almost claim that being Russian automatically translates to a leftist political orientation.

One conclusion of Jerschina and Górnjak’s (1997, 92) study on the value orientations of the Baltic peoples is that Russian-speaking minorities in Estonia, Latvia and Lithuania are more leftist oriented than the respective majorities (although the scale measuring ‘leftism’ is composed of the orientation towards egalitarianism and economic statism, the validity of which is arguable). Jerschina and Górnjak seek to find an explanation for the greater achievement orientation among the Lithuanian minorities in cultural characteristics and differences between minority groups. They thus ignore an option that the position of the Lithuanian minorities may be crucially different from the minorities in Estonia and Latvia because the former have got higher autonomy the latter ones.

This fear of leftist ideology, associated with Russian-speaking minorities, especially in Estonia and Latvia (see e.g. Mygind 1997, 134), has serious consequences for the status of the Russian minority on the one hand, but also for balanced political development on the other. The nationalistic, pro-Republican views had the upper hand in the beginning of the transition period, which resulted in an arrangement in which the Russian-speaking population was left without citizenship and voting rights (Mygind 1997, 134-135). It is important to note what Mygind (1997, 134) concluded: “As a result of this, a vacuum existed on the left of the political spectrum in [Latvia and Estonia]”. In Mygind’s opinion, the Russian-speaking population formed the political left but when it interfered in their right to participate in political processes, a vacuum formed on the left. The idea that Russians carry on leftist views remains strong, even in today’s Estonia.¹⁹

3.5 Emigration as an ‘exit’ strategy

As a consequence of the ‘return to the West’ and the EU accession of the Baltic States, a massive emigration has occurred from the Baltic to Western European countries, especially to Scandinavia, the UK and Ireland. It is evident that most of the workers chose to emigrate to the UK or to Ireland but the figures do not reveal the whole truth. Most of the service migration takes place through

¹⁹ The Centrist party is viewed as the only left-wing party in Estonia, which is partly due to its political programme. The programme includes social reforms but virtually all Estonians associate it with Russians living in Estonia (non-citizens, who are virtually all Russians, are not eligible to vote in national elections but are able to vote in local ballots, which is why the densely Russian-populated town of Tallinn has a Centrist majority in polls).

postings, hiring out of workers or through self-employment. In Finland and Sweden, for instance, the number of posted workers is unknown (Dølvik and Eldring 2006, 6). The emigration is drastically shaping the Baltic labour market, since masses of skilled labour are leaving their home countries, making it difficult for firms to maintain their skills base. A loss of potential employees is seen in migration statistics. Tirpak (2007) has calculated migrant stocks, originated in EU8 countries, in EU25:

TABLE 3.7 Emigrants stocks in EU25 (Tirpak 2007, estimations from 2006)

	Persons	Percent of home country labour force
Lithuania*	157,480	10.0
Latvia**	99,600	8.6
Slovakia	225,810	8.5
Poland	1,207,070	7.1
Estonia	31,030	4.5
Czech Republic	54,480	1.0
Hungary	25,430	0.6
Slovenia	N/A	N/A

*) Total emigrants, sum of declared and non-declared (estimated) emigrant flows in 2001-2006

***) EEA countries and Switzerland included

There are “pull” and “push” factors that determine decisions to leave the country. Estonia’s accession to the EU in 2004 has given a significant impulse for workers to seek employment possibilities abroad. As Estonia’s neighbouring country, Finland, abolished all restrictions to the free movement of labour in 2006, widened the opportunities to work abroad (The Estonian Economy... 2008, 28). In Latvia, emigration to the west, mainly to Ireland and Britain, can partly be explained by the fact that the minimum wage in Latvia is the lowest among EU countries, while the cost of living and economic growth have increased greatly (Eubusiness 2006).²⁰ “Push” factors may be behind Lithuanians desire to emigrate as well. The World Bank report on Lithuania (The World Bank 2005, 45) stated that there was anecdotal evidence that Lithuanians preferred moving to Ireland or any promising foreign country than to any location in Lithuania. In sum, Akule (2008) puts forward four reasons for leaving the Baltic States:

- Better paid jobs in other EU countries
- Better working conditions: relations between employer and employee, better protection of workers’ rights
- Social security and stability in the host country
- Better opportunities for education and employment

In response to tight labour markets, employers have encouraged the import of foreign workers from Belarus and Ukraine, rather than attempting to improve

²⁰ The minimum wage was at 130 Euro, while in the first quarter of 2006 it had risen to 160 Euro (FINPRO 2008a).

the labour conditions of domestic workers (Woolfson 2007). Research conducted by the Estonian Labour Market Board found that Estonian employers are primarily interested in recruiting cheap labour from the FSU for manufacturing jobs (the Baltic Times 6-12 October 2005). In a Lithuanian metalworking company, Belarussians were employed in place of Lithuanians, who, according to the Development Director, "...are already spoiled. An ordinary welder in Vilnius would like to be paid 3 thousand LTL. Belarussians weld for less payment and besides, they are willing to work evenings and weekends" (BalticTU 2005).

To some extent, emigration helped the unemployed in the Baltic States find employment, since certain sectors were urgently lacking workers prior to the current recession. Unemployment rates decreased during 2004-2005, partly due to the effects of emigration. In Estonia, there was a tendency for qualified, blue-collar workers to be hired from Russia and Ukraine, especially welders, of which there was a shortage. Estonian managers complained that young generations were seeking better careers by obtaining university educations (Kurm 2005). The wide gap that existed between demand and supply in the Estonian labour market was seen differently by the various labour market institutions. The chair of the Estonian Confederation of Trade Unions (EAKL), Harri Taliga, credited this to be a consequence of low wage policies, whereas the chair of the Estonian Employers' Confederation (ETTK), Tarmo Kriis, felt that "Estonians do not want to be trained in certain fields where the work is difficult" (*ibid*).

The Employers' Confederation of Latvia (LDDK), which unites companies employing 25 percent of the Latvian workforce, suggested filling low-skilled vacancies with domestic workers while attracting high-skilled specialists from abroad (the Baltic Times 21 Dec 2006-10 Jan 2007). High labour turnover was a strong indicator of job dissatisfaction in the Baltic workplace. In July 2004, a Latvian research centre SKDS carried out a survey and found that over a half of all Latvians had considered changing their place of employment in 2003. A particularly high rate of labour turnover was noticed among young workers and among the basic labour force (85.6 percent and 64.4 percent, respectively). The situation was not any better in Lithuania. The portion of new employees hired during the in 2004 was 24.5 percent in total, whereas the share of employees leaving companies was 35.7 percent (The World Bank 2005, 13).

There were also individual cases where high labour turnover raised concerns. Foreign manufacturers in Estonia complained about huge annual labour turnover (as high as 40 percent) and growing absenteeism. A particular manager was quoted as saying: "in Estonia, there is an apparent social acceptance of unjustified absenteeism. It's normal not to go to work" (the Baltic Times 19-25 April 2007). There was a similar trend in Lithuania as well: employers were not able to retain their workers. A small Danish firm located in a regional centre was experiencing a 40 percent annual labour turnover. To make the situation more difficult, employees were not obeying the two-week

period of notice and merely leaving on a day of their choosing (News2biz Lithuania 11 October 2006).

3.6 Trade unions in the Baltic States

3.6.1 The foundation of Baltic trade unionism

The trade union movement in the Baltic States originated at the end of 19th century, when the territories of present-day Estonia, Latvia and Lithuania (along with Finland) belonged to Tsarist Russia. In regions of present-day Estonia, there was a societal layer consisting of 24,000 industrial workers at the end of the 19th century who were potential trade unionists (Kiik 1995, 6). Additionally, there were 14,000 craft workers and thousands of construction, repair, transport, sales and office workers in Livonia (*ibid*). Riga's rapid industrialisation at the end of the 19th century brought forth a proliferation of industrial class: there were 6,000 industrial workers in Riga in 1860 and their number increased to 24,000 by 1890 (Pabriks and Purs 2002, 6).

While Finland experienced an active "Wrightian workers' movement" at the end of 19th century that consolidated the national organisation of workers' associations and craft guilds, the Baltic territories saw the appearance of societies aimed at workers' mutual assistance (Kiik 1995, 6). The establishment of the Jonathan's society (Jonatāna biedrība) in 1869 laid down the foundation of the Latvian trade union movement, establishing mutual sickness and burial funds (Pavuk 2008a). Also, a radical new generation of intellectuals who began a movement named the New Current (Jaunstravnieki), represented workers in the mid-1880s (Pabriks and Purs 2002, 5-6). However, workers unrest in 1897 caused Tsarist authorities to ban the movement and its newspapers. Analogies can be drawn between the Baltic regions and Finland during that time, since the Tsarist regime prohibited any organisations demanding improvement in wages and working conditions from emerging in both Finnish and Baltic regions.

The first pseudo-unions were by nature more or less illegal and the events of 1905 provoked unrest. In Riga, seventy workers died in clashes in the aftermath of Bloody Sunday and in Lithuania's regional centres of Vilnius and Kaunas, mass demonstrations took place (Palmer 2005, 242). Eventually, the October Manifesto in 1905 provided a legal basis for association rights. Further, the temporal regulation in 1906 (the Law on Societies) paved the way to a large-scale establishment of trade unions (Kiik 1995, 8), although during the same year the Tsar prohibited strikes (Pavuk 2008a). The first trade union (LSDSP), which united 22 trade union organisations and three civil servant organisations, was founded in Latvia in 1905 and the first collective agreement signed in 1906 (*ibid*). Membership figures declined drastically until 1909 due to the reactionary policies of the Tsarist administration and because of the Marxist influence within the trade union movement (Kiik 1995, 9).

Again, in 1912-1913 there was a re-awakening of the trade union movement, when the Tsar's decree provided workers with social insurance in case of accidents and sickness. The overall politicising of the labour movement was underway in Latvia. There was some convergence between nationalist and socialist ideas in Latvia in the aftermath of the October Manifesto (Pabriks and Purs 2002, 9). The Workers Movement proved to be powerful, especially in Latvia. As many as 120,000 workers participated in strikes in 1913 and the membership figure grew to 10,000 (Pavuk 2008a). The First World War interrupted the activity of trade unions, but the February Revolution in 1917, which ended the Tsarist regime, marked the rebirth of the trade union movement (Kiik 1995, 14-15). In Latvia, the First World War caused industrial production to collapse and by the declaration of independence at the end of 1918, there were no operating factories in Riga (Pabriks and Purs 2002, 16). Consequently, there was not any great recovery of the trade union movement until 1919 (Pavuk 2008a).

The first congress of Estonian trade unions was held on August 30, 1919 but the Central Union of Estonian Workers' Associations was not established until 1927 (Jensen 2003, 14). A corresponding central organisation was established in Latvia in 1920, although the Christian democratic Lithuanian Labour Federation (LLF) had already been founded in 1919 (*ibid*).

Worried by Bolshevik propaganda spread among dock workers, the Estonian government sacrificed democratic ideals and sought to ban the Estonian Working People's United Front, which was a communist party having had won almost 10 percent of the votes in the general election (Palmer 2005, 299). Also, several trade union leaders were sued for conspiracy and one of them executed in the autumn of 1924. In Latvia, the government forbade the activity of "leftist" trade unions that had gained popularity among the people, an act which called for a series of strikes in all major cities. This movement of "New Trade Unionists" united 10,000 members, whose representatives won parliamentary seats in the *Saeima* elections of 1928 and 1931 (Pavuk 2008a).

From the late 1920s, Estonian and Latvian union movements were influenced by Scandinavian trade unions (Ruutsoo 2002, 87). Estonia and Latvia, in particular, were on their way to transforming their societies into Nordic-type democracies between the World Wars (*ibid*, 249). However, the time was not right for Nordic-Baltic union cooperation. The trade union movement of the inter-war period declared more or less openly their goal of overthrowing the bourgeois republics of Estonia, Latvia and Lithuania and uniting them with the Soviet Union (Ruutsoo 2002, 88). In this historical context, Baltic unions chose a different route than their Nordic sister unions did, which on their part were able to become constructive social partners on a national level (*ibid*). However, the Baltic trade union movement was not uniform around this goal. For instance, in Latvia a split occurred in 1921 between the communist trade unions and social-democratic ones (Pavuk 2008a). Irrespective of any attitudes towards the Soviet Union, the entire Baltic union movement was

seriously hit by the coming of authoritarian governments into force first in Lithuania by the end of the 1920s and in Estonia and Latvia from 1934 onward.

In the inter-war period, Latvia and Estonia were more industrialised in comparison to Lithuania: the share of industrial workers in the beginning of the 1930s was 21 percent in Latvia, 16 percent in Estonia and 8 percent in Lithuania (Ruutsoo 2002, 86). Lithuania remained an essentially agrarian economy, where urban dwellers increased their share of the population from 13 to 27 percent between 1913 and 1940 (Lane 2002, 9). Also, the number of workers in Lithuanian industries remained low, being only 40,000 in 1939 (*ibid*). The proportion of industrial workers was particularly significant in Riga, where two thirds of the population (200,000 employees) were dependent on heavy industry prior to 1910 at 350 factories, most of which remained in operation after the upheaval of 1917-1918 (Palmer 2005, 298). Latvia had the oldest, largest and best organised labour force, with 50,000 members in 1933 in 40 trade union federations (Ruutsoo 2002, 86; Jensen 2003, 15). Although Lane (2002) presents Lithuania as being somewhat immune to internationalist (socialist) movements during the interwar period and credits the authoritarian government in Lithuania to be a distinguishing feature from Estonia and Latvia (before 1934), one has to note that the Soviet era (1944-1991) had a largely homogenising effect on the industrial sector in the Baltic republics.

3.6.2 The transition from Soviet to post-Soviet unions

As we speak of Soviet legacies, the “historical record” of the Soviet Union and the politicised role of the Baltic trade unions, we need to consider what linked politics and unions during the Soviet era and what happened in the transition period. The trade union served as a ‘school of communism’ and the ‘transmission belt for the policies of the party’; an idea that has persisted within the new workers’ movement (Clarke and Fairbrother 1993b, 155). Clarke and Fairbrother even argue that this idea has been a major barrier to the development of trade unions that can articulate workers’ interests. When the Soviet system collapsed, the existing forms of social relations within the enterprise constrained the formation of an independent workers movement. Enterprise directors proclaimed themselves as patrons of workers with the intention of maintaining existing power structures. Independent workers organisations posed a threat to the authority of shop chiefs and enterprise directors and questioned the power structures and fragmentation of a workforce typical of the Soviet system (Clarke 1993, 29).

One can imagine the frustration of the trade union officials during the transition period on the one hand and the indifference of rank-and-file members towards the unions on the other hand, as the Soviet apparatus of worker’s organisations collapsed. As the Soviet Union broke down, welfare and social benefits administered by trade unions were abolished. Simultaneously, new functions took precedence over older tasks. Besides negotiating and administering the provision of child care, housing, education, holidays, public catering, municipal transport, sporting and cultural facilities, distribution of

food and scarce consumer goods as well as other benefits, unions faced new challenges of dealing with issues of hours, wages and health and safety (Clarke and Fairbrother 1993a, 94).

The structure of Soviet trade unions served as the basis of the trade union movement in the Baltic States. In Estonia and Latvia, major confederations were characterised as 'reformed unions', in which the union structures and practices remained more or less unchanged to the way they had been prior to 1989 (Nikula 1997, 128-129). Frege's (2000, 744) study of the Hungarian textile industry shows that unions have not managed to reform their old identity consisting of the tripartite workplace governance of directors, unions and the Party, into a pluralist identity based on differing interests between employers and workers. Although the trade unions distanced themselves from the Communist Party of the Soviet Union at the end of 1980s and participated in the movement that demanded economic and political independence in Estonia and Latvia, they carried out reforms without the participation of rank-and-file members (Nikula 1997, 128-129). This had serious consequences for the future of labour unions.

However, the reputation of trade unions being mere passive relicts of the socialist era is not always justified. We have to bear in mind that unions played an important part in the actual overthrow of the communist governments before the collapse of the regime. Cases in point are *Solidarity* in Poland and *Podkrepa* in Bulgaria, which organised protests and mass demonstrations, acted as unions, political parties as well as centres of intellectual leadership (Dittrich and Haferkemper 1995, 144).

In his case studies of post-Soviet Russian firms, Clarke (2004) found that traditional welfare and social benefits and guarantees have endured and in some cases, even improved. In all cases, the trade union continued to perform traditional social and welfare functions, while the union chairperson continued to work closely with the general director (*ibid*). A different story may unfold in the Baltic States, however, as the emphasis has been placed on foreign direct management and the management practices adapted from abroad. The work organisations inherited from the Soviet time may have some features that fit with Nordic management styles, but in new workplaces (as it is the case with greenfield and brownfield investments) the Nordic management desires to retain own discretion in industrial relations issues (Sippola 2009).

According to research conducted by Rahikainen and Ylöstalo (1997, 76), the unionisation rate in new work organisations in Tallinn (the capital of Estonia) was at the lowest level - only 2 percent. The age of the employees was not the definitive factor, as new workplaces employed both young and old workers. Antila and Ylöstalo (2003, 117) observed that in 2002, the proportion employed in the old workplaces was still 43 percent in Lithuania, 38 percent in Latvia, and 36 percent in Estonia. In all three countries, the proportion of workers employed in new enterprises was slightly over 40 percent. In between the "old" and "new" types of workplaces, there were reorganised workplaces. Foreign takeovers were common to these types of firms. In Estonia and Latvia,

the reorganised enterprises increased, whereas in Lithuania they decreased during 1998-2002. (*ibid*, 117-118.)

Overall trust in institutions may have declined as cynicism towards the 'civil society' avenue of influence increased. While the years of national awakening in 1987-1991 saw a proliferation of participation in civil society in the Baltic States, the membership of associations has since been in a steady decline. In Estonia, an overall decrease in participation in different types of joint actions and societies is due to the diminishing enthusiastic ethos, which united the nation in the years of the reawakening (Järve 1996, 163). Also, the associations are not used for advocating the interests of social groups and citizens do not acknowledge their potential in regulating social life tensions.

3.6.3 Contemporary trade unionism in the Baltic States

Union densities had dropped from about one hundred percent at the beginning of the 1990s to 10-20 percent within a time span of ten years (Antila and Ylöstalo 2003, 68). In Estonia there is a general confederation, EAKL and the white-collar confederation, TALO. EAKL had 43,776 members, whereas TALO had 30,000 members in 2005 (Kallaste 2005, 114). Collective bargaining is conducted mainly at the company level in Estonia. Among the private sector unions, only the Transport Workers' Trade Union Federation has managed to sign a sector agreement.

In Latvia, there is a single trade union confederation representing all trades, the LBAS, with 165,000 members in 2900 enterprises (Pavuk 2008b). Bargaining occurs largely at the company level. Among the Baltic States, the tradition of the trade union movement has been and continues to be the strongest in Latvia. A case in point is the Education and Science Workers' Trade Union (LIZDA), which unites 56,000 members and accounts for 80 percent of the employees in these sectors (Pavuk 2008b). The union is famous for its meetings, demonstrations and pickets for rising workers' salaries. It also has a strike fund of its own (*ibid*).

In Lithuania, the state of affairs is more complicated. The largest confederation, LPSK (Lithuanian Trade Union Confederation), unites most of the unions but there are historical and political reasons behind the existence of another confederation, the Lithuanian Trade Union "Solidarumas". The Lithuanian Labour Federation, LDF, is the smallest of the confederations and has a rather marginal role. Estimates of membership figures vary from 2000-3,000 to 15,000 (Davies 2004, 56). LPS Solidarumas had 58,000 members and LPSK about 110,000 members at the beginning of the decade. The year 2007 saw a 'declaration of cooperation' between these three confederations that hoped to unite in the future (Carley 2008, 30). Company level is the dominant bargaining level in Lithuania as well.

TABLE 3.8 Unionisation in the Baltic States and three other CEE countries (Industrial Relations in Europe 2006, 25-26)

Country	Overall unionisation (%)	Industrial sector unionisation (%)
Estonia	9-14*	5
Latvia	15-18**	4
Lithuania	11	5
Hungary	18	15
Poland	20	19
Slovakia	31	19

*) According to Kallaste (2005, 113) only 8.5 percent of salaried employees were members of trade unions in Estonia in 2005. However, during the same year, the Working Life Barometer found the union density to be at 12.8 percent.

**) According to Pavuk (2008b), LBAS unites 165,000 workers nation-wide, which makes up 15 percent of all employees.

A remarkable trend in the above table is that the union density within the industrial sector is extremely low in the Baltic countries. This is clearly seen when making comparisons with other CEE countries. While the rate in Estonia, Latvia and Lithuania stands at 5 percent, the corresponding figure in Hungary, Poland and Slovakia (these countries happened to be the nearest CEE countries having estimations of unionisation rates) is 10-15 percent (although overall unionisation rates are also higher in the latter three countries). The fact that the Baltic labour movement is rather weak may be due to a number of reasons (Crowley 2002, 5; Woolfson and Beck 2004, 227-228):

1. Corporatist institutions are weak
2. Union competition, in the sense that unions tend to be more militant when there are a number of unions competing for members and resources²¹
3. Economic theory of strikes: it is more difficult to go on strike in conditions of economic downturn and high unemployment
4. Use of individual "exit" rather than collective "voice"
5. Legacies of the communist period: a) institutional legacy of communist trade unions as well as b) ideological legacy of a regime that ruled in the name of the working class, which in fact hindered genuine worker action and the formation of worker identity

The weakness of unions is further reinforced by the fact that little money is transferred to the national level from membership fees: a typical share allotted to the federal level is from a quarter to a half of the 1 percent in trade union fees extracted from an individual worker's wage. The low level of fee transfers means that Baltic union federations are not able to launch major campaigns without external aid.

One can interpret the fourth point - "exit" rather than "voice" - on the basis of the fifth explanation. Industrial relations are marked by the Soviet stamp, where labour organisations were not like modern unions, genuinely

²¹ One can agree or disagree, whether this kind of competition is good or bad. In Lithuania, for instance, the competition between three confederations for members can weaken an already weak trade union movement.

defending the interests of labour. This explains why an employee is prone to rely on him/herself (or on company management) rather than weak unions. Or, the "exit" may be a concrete exodus from the Baltic labour market by means of emigration, when labour conditions deteriorate excessively. Individual resistance was common of Soviet workers: they expressed their dissatisfaction in individualistic ways, through dispute procedures and by writing letters of complaint but more often through alcohol, slacking and absenteeism and even by changing their jobs (Clarke and Fairbrother 1993a, 110).

3.6.4 The present state of trade unionism

Given the tight labour market due to the exodus of workers abroad, one might wonder why the remaining workers have not used their collective voice? One explanation to this question lies in the current situation of the Baltic labour market. Emigration has improved the situation of the average skilled worker and increased his/her leverage to negotiate wages on an individual basis. This can be seen in the significant salary increases of previous years (prior to the recession in 2008). In Latvia, there have been year-to-year salary increases of up to one third and over a quarter in increases in Estonia and Lithuania (Woolfson et al. 2008). The impressive rise in wages has now come to an end. It remains to be seen whether the recession will force employers and employees to negotiate wages again collectively (in order to keep rising wages in control) or if the "exit" abroad will continue.

Younger workers are often opposed to trade unions but many senior workers remain members from force of habit, although most do not believe in their influence (Rahikainen and Ylöstalo 1997, 71). In Estonia, employees do not show much interest in trade unions, which Rahikainen and Ylöstalo's opinion is "easy to understand in a country that strives to erase 'all things Soviet'". Furthermore, the influence of trade unions is negligible in practice, especially as social policy is carried out by other means and obligatory employment is no longer in practice. (*Ibid*, 75.)

There have been some recent signs of revitalisation of trade unionism in Estonia. A planned strike by doctors and health care workers was averted by last-minute agreements made by trade unions, employers and the state mediator (the Baltic Times 18-24 Jan 2007). In case of non-agreement, the industrial action would have spread nationwide and extended to such sectors of the labour force as rail workers, pilots and seamen – groups regarded as highly unionised in Estonia (*ibid*). Tiia Edith Tammeleht, a legal secretary for the EAKL was quoted in The Baltic Times as saying that: the planned action was the first major activity for years, and "this is the first time in recent history that we had such a wide sectoral action. It shows that unions are becoming stronger, and that workers have more power".

The idea that trade union membership has increased in some strategically important industries such as the maritime sector seems to bear truth on other levels as well. The dispute between the shipping company Tallink and the seamen's trade unions of Sweden and Finland resulted in a membership rise of

40 percent for the Estonian seafarers' union, the EMSA (the Baltic Times 25-31 Jan 2007). This provides proof of the power of international union cooperation and is captured by a quote made by Harri Taliga, president of EAKL: "When the Estonian people saw that unions overseas can be a real power, the membership numbers of seamen increased by 40 percent" (*ibid*).

We can conclude from Charlwood's (2002) evidence from Britain that willingness of the non-union workforce to join unions increases where job dissatisfaction, left-wing views and union instrumentality gain ground. The combination of these three factors together explains the proneness to unionisation more clearly than any of the factors alone. Still, the perceived instrumental orientation of workers (the belief that a union would make a workplace better) is the best single factor in anticipating unionisation (*ibid*). This argument deserves consideration in the Baltic context, namely as Baltic citizens race to enhance their standard of living and achieve western standards is interconnected with the growing importance of instrumentalist values. In this process - which has already transpired in western countries - allocative conflicts over the ownership and control of productive resources will decline in importance while collective bargaining will focus more on economic issues (see Reed 1989, 109). Thus, unions need to show their instrumentalist value (how they are able to improve the workplace) in order to gain new members.

The social custom theory on trade union membership (Visser 2002), which integrates rational choice and social network theory, is also worth considering in the Baltic context. According to Visser (2002, 406-407), unions fail to attract members for two reasons: (a) they do not deliver the services or goods that workers expect; or (b) they are unable to uphold the norm of social custom. Social custom theory explains diverging unionisation trends between sectors within a country and gives us a clue as to why there are divergent union densities between countries. As union density is low in certain sectors within a country, both the effectiveness of unions and the single worker's *reputation loss* due to non-membership will be weaker (Visser 2002). Hence, a lot depends on what the workers assume their co-workers think of the membership issue. Membership is not regarded to be very important by the respondents' co-workers, which is especially evident in Estonia (Antila and Ylöstalo 2003, 77).

Prior to 2002, Estonian, Latvian and Lithuanian legislation defined trade unions as the employees' representatives. At the moment, representation of workers in the Baltic States seems to be moving towards a *dualist model* of representation by both trade unions, and non-union representatives or work councils. In Estonia, all employees can elect a representative body, which substitutes for trade unions but those duties are defined in law more loosely than the duties of trade unions. In 2002 in Latvia and in 2003 in Lithuania, a law was passed which provided workers with the opportunity to represent themselves through trade unions and works councils on issues regarding information, consultation and participation of workers. This might indicate that Latvian and Lithuanian models resemble the dual representation models of Continental Europe.

The Estonian *mixed system* of employee representation calls for closer examination, since it can cause as much confusion as the dual system in Latvia and Lithuania. A non-trade union trustee can be elected at a general meeting by employees not belonging to a trade union. The trustee serves as the sole representative of the employees or as a parallel representative organ within the trade union. This form of representation is very unusual among EU member states (Kallaste et al. 2007, 5). According to Kallaste (2008, 177), five types of employee representation exist in Estonia: 1) Employees trustee elected in general meeting of employees with informing and consulting purposes; 2) union trustee; 3) work environment representative; 4) work environment council; and 5) European Works Council (EWC).

The first option, or non-union representative, must be elected at a general meeting of employees not belonging to a union, to serve as an alternative channel of employee participation alongside the trade unions (Kallaste 2005, 113). When a trade union shop steward and a non-trade union trustee co-exist in the same firm, a question arises: with whom does the management prefer to carry out information and consultation practices? There may be cases in which a non-trade union trustee has been instituted by the employer's initiative even if a trade union already exists in the company. This occurred in two out of the eight cases in Kallaste and Jaakson's (2005) research. Further, in one specific case, comments made by the trade union shop steward about the non-union trustee and the director made it clear that the management's attitude was hostile towards the union.

3.7 Employers' associations

The trade unions' opposing parties, or their interlocutors, are referred to as 'employers' associations' in this report, although different terminology, such as business interest associations, industrial organisations or industrial associations are also commonly used. Relatively strong employers' associations are important for trade unions for three reasons (Ebbinghaus 2002, 474):

1. The associational structures of employers facilitate or hamper bargaining centralisation;
2. Their degree of organisation largely determines bargaining coverage;
3. Their policies towards union recognition have an impact on workplace dialogue.

The employer's desire to organise grows when the unionisation rate increases. In Germany, the decline of bargaining coverage is becoming an acute problem, since membership in both the employer associations and labour unions is falling (Ebbinghaus 2002, 475). Also in Britain and Ireland, unions face widespread non-recognition and decentralisation associated with low levels of employer organisation and union density (*ibid*).

In the Baltic States the weakness in employment relations derives from the relative weakness of both parties of industrial relations: representative organs

of employees and employers. It is estimated that Estonian employers' associations organise 30 percent of the employers, Latvian ones less than 30 percent and Lithuanian ones approximately 20 percent (Kvinge 2005, 24). Along with Poland, the Baltic States rank lowest in this respect among the EU-8.

According to Lanza-laco and Schmitter (1994, 191), the logic behind forming employers' associations is not much different from that of trade unions. Both are social actors with subjective preferences. In their opinion, employers' associations do not pursue idealistic capitalist expansive interests "as a class" but rather they defend short-term interests of their capitalist members. Employers, be they individual enterprises or employers' associations, possess more power than employees. Owners or managers of enterprises command greater resources than do employees as individual producers, in addition to which they are often more influential in national politics (*ibid*, 192).

A fundamental difference between trade unions and employers' associations is that the former represents its members' interests against an opposing power (employers) but the latter has a dual role: to represent their members in the labour market *vis-à-vis* trade unions and to represent their interests in product markets *vis-à-vis* other associations and/or regulators, state agencies and institutions. This dualism of activity is illustrated in Table 3.9.

TABLE 3.9 Dualistic set of activities of business interest associations (according to Lanza-laco and Schmitter 1994, 193)

	Class interests	Producer interests
Market in which these interests emerge	Labour market	Product market
Cleavage around which these interests emerge	Class	Sector
Distinction that these interests produce	Inter-group (categorical)	Intra-group
Tendencies that these interests bring about	Cohesive	Divisive
Type of association representing these interests	Employers' association	Trade association
Main interlocutor	Trade unions	State agencies
Main legitimacy principle of action	General interests of capitalists as buyers of labour	Specific interests of capitalists as sellers of products
Main organisational principle	Integration	Differentiation
Preferred parameter for organisation	Territory	Sector
Historical impetus	Class conflict	Sectoral clashes

In the Nordic countries, the activity of industrial associations has traditionally been in defence of the labour market (they act as 'employers'). In the past, there were distinctive trade associations for employers in Denmark, Finland, Norway and Sweden whose purpose was to enhance trade (Lanza-laco and Schmitter 1994, 194). Lately, the emphasis of industrial confederations has been towards production in Nordic countries as well. Sweden can be used as a prime example, where the Federation of Swedish Industries (SAF) ceased to exist in

2001 and a new lobbying organisation, the Confederation of Swedish Enterprises (SN), was born (Hammarström et al. 2004, 271-274).

In the Baltic States, employers' associations generally emphasise production, whereas their interests are directed towards state agencies and other institutions rather than towards union federations as an opposing party. This incoherence makes cooperation more difficult between Nordic and Baltic associations in regard to industrial relations. It is natural that production will be emphasised between colleagues from both sides of the Baltic Sea. This point was confirmed by the views of interviewed managers in the twelve researched companies of this study. They typically regard the employers' associations as government lobbying powers and providers of information on branch tendencies and EU regulations.

As far as CEE countries are concerned, employers tend to be more eagerly affiliated to associations in the fully or partially privatised former states sectors. Employers in newly established businesses are reluctant to be organised. Foreign employers' interests in affiliating with domestic employers' associations vary, since they have established economic organisations of their own, which carry on lobbying and occasionally represent their interests to unions. (Lado and Vaughan-Whitehead 2003, 71; Marginson and Meardi 2006, 102.) Nordic employers' organisations, such as the Finnish-Estonian Business Managers' Society (ESLY) and the Danish Business Club in Lithuania exist in the Baltic States but they lack lobbying campaigns, let alone public relations *vis-à-vis* trade unions. Also, attention must be given to the Foreign Investors' Council in Estonia (FICE), founded in August 2008, which is actively lobbying for the revision of the labour law in a way that would ensure re-gaining Estonia's competitive advantage (Baltic Business News November 7, 2008).

The Federation of Swedish Industries (SAF) blames the new EU member states for the inability to guarantee free movement of their undertakings *and* for non-action against Nordic unions' activities in firms that come from the new member states (Eesti Päevaleht 22 June 2006). SAF's desperate position was evident before judgement was passed on the *Laval un Partneri* case in 2007 (see Chapter 2.3.1.3), which eventually - and unexpectedly - ruled unfavourably against Swedish trade unions. The stance taken by the Swedish association was warmly welcomed by the chairman of ETTK, Tarmo Kriis, who was enthusiastic about the new initiative to cooperate against the activity of Nordic unions (*ibid*).

The focus of employers on social partnerships with state agencies instead of on trade unions becomes evident if the policy papers of employers' associations are taken into consideration. For example, in its annual report, within the chapter titled "Representation and defence of members' interests," the Association of Estonian Food Industry cites (Association of Estonian Food Industry 2004) its co-operative partners: the Ministry of Agriculture, Ministry of Foreign Affairs, Ministry of Economics and Communication, Ministry of Finance, Ministry of Education and Science, Ministry of Environmental Affairs, Estonian Chamber of Commerce and Industry, ETTK and other organisations

such as NGOs. The words "trade union" and "social dialogue" were mentioned in the document once, in connection with co-operation with ETTK. This confirmed that the overall tendency in Estonia and other Baltic countries for social dialogue was carried out mainly at the national level, while there was barely even a mention of anything in sectoral level documents. What made the policies of the Association of Estonian Food Industry so significant was that nine out of the total of 22 its members were Nordic companies, according to the Annual Report 2004 (*ibid*, 12). Of these, one was among the twelve companies researched in this study.

One can also come to this conclusion by examining the activities of the Lithuanian Apparel and Textile Industry Association through its web pages (LATIA 2006). Neither trade unions nor the functions of social dialogue were encountered in the list of activities. For some reason, a EU-funded social partnership project with the trade union organisations LPUF (the textile federation affiliated to LPSK) and Solidarumas titled: "Developing the social partnership in Lithuanian Apparel and Textile industry" did include the word 'social dialogue' as to LATIA's list of activities. When I met with LATIA's deputy general director Linas Lasiauskas in June 2005, I was under the impression that this project sought to start a new phase within the industrial relations in Lithuanian textile sector by encouraging real sectoral level negotiations. This three-year project included six different areas and had the objective of reaching some kind of collaborative agreement.

Indeed, an increased interest in the labour market is evidenced through changes in the conduct of Baltic employers' associations. The establishment of the Lääne-Virumaa employers' association in Estonia in April 2005 appeared to accentuate Lanzalaco and Schmitter's (1994, 188) concept of the "orthodox" capitalist perspective, according to which employers engage in collective action when compelled to do so by unions. A handout of the Estonian Confederation of Employers ETTK stated: "it is not a secret that the [newly established] association intends to unite employers to counterbalance the proliferating trade union movement." In the same document, the chairman of ETTK, Tarmo Kriis, stated: "there is a lack of confidence in trade unions in the region, as employers do not know the actual goals of the unions nor their impact on the competitiveness [of enterprises]." In conjunction with this, the chairman of ETTK acknowledged that although many companies were affiliated with branch-level organisations, the objective behind joining was more related to trade issues. First members of the new association were mainly manufacturing companies, the most prominent of which were foreign. (ETTK 2005.)

The Latvian Construction Contractors' Association (LBA) is an example of an employers' association that promotes social dialogue in public. According to the association's website, the goal of the association, as of 2006, was "...to coordinate and protect the interests of members of the Association in the building market and to retain good relations between employers and employees and with customers." Market activity was mentioned first, whereas industrial relations came next. The main social partner, the Latvian Builders' Trade Union

(LCA) was also in the list of partners. The official use of the terms 'social dialogue' and 'industrial relations' had been left to the national confederations of employers in the Baltic States. It is evident that this state of affairs implies the weakness of federal level social dialogue in the Baltic countries in general.

3.8 Employee participation at the Baltic workplace

In CEE countries, employers have taken advantage of the weak institutional framework and labour regulations wherever opportunities have arisen and have been able to build information and consultation systems in directions most beneficial to them (Gradev 2001, 18-19). Kallaste and Jaakson (2005) researched employee involvement processes in Estonian firms with different employee representation bodies: a sole trade union representation on one hand and a trade union shop steward along with a trustee elected by a workers' general assembly (mixed representation) on the other. In the Baltic context, employers usually hold the key to dialogue and consultation at the company level but do not generally take the initiative to do so. It is not assumed that employers regard employees as competent partners deserving to be informed and consulted. Kallaste and Jaakson (2005, 49) concluded, for instance, that the presumption that workers are incompetent may keep employers from initiating consultation processes. The state of affairs will remain the same if employees are not informed or consulted – they will not be involved in company issues and consequently will remain ignorant.

In the absence of trade unions or other representation systems, employees are largely informed and consulted through direct superiors. Such is the case in Estonia, as Kallaste and Jaakson's (2005, 70) and Saar Poll's (*Working Life Barometer 2005*, 44) results indicate. According to the latter source, consultation of employees is conducted through a direct superior in about a half of enterprises. In over one tenth of the enterprises, the opinions of employees are collected at regular meetings. Still, indirect participation at Baltic workplaces is low, as trade unions are present in one quarter of workplaces (Antila and Ylöstalo 2003, 72). Due to the low levels of union representation, Estonian managements have developed other forms of communication with employees and given precedence to human resource approaches in their employee relations (Alas and Svetlik 2004, 382).

In their comparison of Finnish and Estonian HRM practices, Vanhala et al. (2006) found that all forms of communication with employees had increased in the time span of three years by the turn of the millenium. Electronic communication had increased in 85 percent of the investigated organisations in both countries, while regular briefings increased in 50 percent of Estonian organisations, and direct employee communication in 47 percent of Finnish organisations during the same time. Finland is a unique country, according to the CRANET-E survey used by Vanhala et al. in terms of the briefing of

employees on strategy, financial performance and organisation of work of both blue-collar and white-collar workers, compared to other EU-15 countries.

A EU directive (2002/14/EC) on information and consultation sets new requirements for labour legislation in Baltic countries. It may require a profound change in Baltic managements' thinking to implement information and consultation practices in Baltic authoritarian and hierarchical work organisations in the manner laid down in the directive. This challenge has been met to a satisfactory degree in Latvian and Lithuanian legislation. According to the 2002 Labour Code in Latvia, both works councils and trade unions have been given the same information and consultation rights (Industrial relations in Central and Eastern Europe 2004, 110). According to Latvian, as well as Lithuanian labour laws, information is defined as the exchange of views but consultation aims to achieve a collective or workplace agreement (Information and consultation in Europe 2005, 27-29). As of February 2007, a new Employee Representatives Act came into effect in Estonia with the intent to implement the 2002/14/EC directive on information and consultation, which obliges employers with at least 30 employees to inform and consult their employees regardless of the presence of trade union organisation at the enterprise (Carley 2008, 26).

One must also note who is informed and consulted. In Estonia, the representative body consists mainly of the trade union, which is under the direction of shop steward (although recently this right has been extended to non-union representatives as well). An employee representative elected among all workers is possible. In Latvia and Lithuania, both trade unions and works councils can be considered representative bodies.

3.9 Workplace bargaining in the Baltic States

With regard to conventional research on industrial relations, the negotiations between labour and management are considered in terms of collective bargaining. This is largely due to the fact that the bulk of traditional research has been conducted on unionised workplaces, in which negotiations have been carried out collectively and trade unions have been recognised by the management. Conversely, in the analysis of Baltic workplaces, I prefer using the term 'individual bargaining' alongside collective bargaining, and I have used the overall term 'workplace bargaining' to denote both of these activities.

3.9.1 Collective bargaining at the Baltic workplace

The incidence of collective agreements in the Baltic States is among the lowest in the EU, even compared to newly accepted states (Carley 2002, 6; Gradev 2001, 18). In Hungary, Poland and Slovakia, for example, the coverage was between 34-48 percent and in the Czech Republic it was 25-30 percent (Carley 2002). According to Antila and Ylöstalo (2003, 79), collective agreements existed

in a quarter of the workplaces in Latvia and Lithuania (the exact figure is 26 percent for both) and in 22 percent of the workplaces in Estonia.²² Carley's findings (2002, 6) indicated that these figures were 29 percent in Estonia, 20 percent in Latvia and at the bottom, 10-15 percent in Lithuania. The incidence of collective agreement corresponded to the figures of incidence of trade unions at the workplace, which occurred in 25 percent of the workplaces in Estonia, 26 percent in Latvia and 23 percent in Lithuania (Antila and Ylöstalo 2003, 79). This implies that both trade unions and collective agreements were absent from three quarters of workplaces in all Baltic societies.

Whatever the exact figures, they are extremely low when compared to the "old" EU countries like Austria, Belgium, Finland, France, Greece, Italy and Sweden, where coverage reaches 90 percent or beyond (Kohl and Platzer 2003, 19). Actually, collective agreements cover 70-100 percent of all workers in every "old" EU member state, except for Britain. (Industrial Relations in Europe 2002, 46-47.) The new EU member states are radical in this respect and resemble countries with weak corporatism like Japan, Canada and the United States. The Baltic States also belong to the latter regime in qualitative terms. Scarcity and dispersion in bilateral collective bargaining is common and interdependence between wages and trends in the labour market exists.

Bargaining can be hindered by the fact that collective agreements are often required to be extended to all of the workers in the workplace in response to employer demands. In Estonia, legislation was passed that extended collective agreements to non-unionised workers (Kauppinen and Welz 2003, 20). No such legislation was passed in Latvia and Lithuania, explaining why their overall collective bargaining coverage was smaller than in Estonia: the figures were under 20 percent in Latvia and 10-15 percent in Lithuania, whereas the coverage in Estonia was 29 percent (Carley 2002, 6). However, the number of collective bargaining agreements in workplaces was greater in Latvia (26 percent) and Lithuania (26 percent) than in Estonia (22 percent) according to Antila and Ylöstalo's survey (2003, 79). One could conclude that CBA extension to non-unionised workers does not have a positive impact on the bargaining position of trade unions.

3.9.2 Individual bargaining

There appears to be continuous wage bargaining at Baltic firms, where workers negotiate wages on an individual basis. During my fieldwork at the Baltic factories, I frequently heard managers complain about workers dissatisfaction over salaries and I was occasionally even asked whether I was satisfied with my salary. I could not fully compare my situation to that of the Baltic production worker but I had to acknowledge that I had no reason to complain. I examined pay satisfaction statistics and found that Nordic people are indeed twice as

²² In the new Working Life Barometer for Estonia in 2005, the figure is 25 % (Working Life Barometer 2005, 54).

satisfied with their incomes as their Baltic counterparts.²³ Unions and employers draft collective agreements on my behalf in my home country of Finland and I have no reason to be suspicious about my co-workers earnings, as wage standards are transparent.

Competition within firms over skilled labour was almost as frequently encountered as demands for wage increases. Before I was granted a research permit for a few of the case companies, a manager wanted to ensure that I was not an agent employed by a competitor and that I was not recruiting their skilled workers to another company. This sort of competition originates in tight labour markets, where highly qualified labourers are able to choose between firms on the basis of the best offer available and they manage well in individual effort bargaining. On the other hand, unskilled labourers are unable to choose their workplace in a highly segmented labour market. The competition in wages among qualified workers is one of the reasons behind significant wage increases and the broadening of the wage gap during the past few years. The never-ending race to better wages has had a contradictory effect for managers, as they have intentionally promoted individual wage bargaining and limited access to shared wage information between co-workers.

Studies of Soviet work organisation as well as those of the Baltic States from the beginning of the 1990s indicate that wages are the most important work incentive and that the instrumentalist orientation towards work is prevalent, especially among industrial workers (Melin 1995b, 77).²⁴ This has been common under the socialistic regime and during the economical transition in the Baltic States. If we ponder the possibilities of collective agreements in the Baltic States, then we can conclude that the desire for collective negotiations is greater than their occurrence in reality. According to Antila and Ylöstalo (2003, 84), a significant portion of employees would prefer to agree collectively on many issues, rather than individually between employer and employee. However, the trend in wage bargaining seems to be towards individual agreement in Estonia, according to the Working Life Barometer 2005 (Working Life Barometer 2005, 60, 62). Over 60 percent of workers negotiated wages on an individual level. The same proportion of workers preferred this method of negotiation. The most recent account by Woolfson et al. (2008) paints an even gloomier picture for unions: four out of five workers in the Baltic States agreed that their salaries were best discussed individually with the employer.

²³ While 86 % of Danes, 68 % of Finns, and 73 % of Swedes were satisfied with their income, only 30 % of Estonians, 27 % of Latvians and 35 % of Lithuanians were content with their income (Alber and Fahey 2004, 40).

²⁴ Burawoy (1979, 137) questions the argument that the instrumental orientation of workers is a product of changes in urban society and therefore it would become more articulated value orientation. Moreover, Burawoy (*ibid*, 138) points out the failure of surveys of worker attitudes that do not provide any data on industrial behaviour, as he states "...while workers speak of making out in the *idiom* of making money - the cash nexus - their actual behaviour reflects a particular 'culture,' organised at the point of production and independent of outside orientations. ...the idiom in which workers couch and rationalise their behaviour is not a necessary guide to the patterns of their actual behaviour."

Individually negotiated wages eventually leads to wage competition, which does not necessarily benefit foreign investors. For instance, Finnish investors have begun to envision the possibility of sector-level wage bargaining in the Baltic States (Heliste et al. 2007). The main incentives for the Finnish investors are high labour turnover and the increased competition for labour between companies, which results in ever increasing offers of premiums and benefits for workers. There are, however, contradictory reports on whether the foreign employers are prepared to use high wages as work incentives. When a reporter asked UK managers who had established a factory in Estonia whether they had usable facilities, incentive programmes or promotion opportunities to keep employees happy, the managers' responses included such incentives as a shuttle bus for commuting, sports clubs memberships, parties and company barbeque to offer for their workers. In one company, the top employee was granted a monthly bonus (the Baltic Times 19-25 April 2007). There was neither word of incentive programmes nor promotional opportunities to *really* retain the workers on payrolls. The hesitation of a foreign owner to contribute to committing their labour is supported by the example from a Tallinn-based Elcoteq Network Corporation, where the management was facing difficulty in maintaining their workforce, as they were unwilling to pay compensation for routine work. At this factory, routine and continuous work operations were the most significant problem facing working conditions (Eamets et al. 2005, 139).

The preference to discuss wages individually may be due to two factors, with respect to the Estonian labour market: first, workers are accustomed to agreeing upon wages individually and therefore cannot imagine negotiations in other ways and second, employers strive to keep salaries secret (Working Life Barometer 2005, 61).

3.10 Industrial disputes

In regards to collective labour disputes in Estonia, there is a conciliation procedure involving employers associations and union federations in the first place, as well as local conciliators or the Public Conciliator in case the labour market parties fail to come into satisfactory conclusion (Kallaste 2008, 174). The conciliator identifies the reasons and circumstances of the dispute, and then proposes a resolution. The parties should reply to the proposal within three days and are required to in conciliation proceedings (*ibid*, 175). Disputes have typically been due to wages, work hours, rest hours, training as well as refusals of employers to conclude a collective agreement.

Employees in government agencies, other state bodies, local governments, National Defence Forces, courts fire fighting or rescue services are prohibited from calling a strike in Estonia. Strike organisers need to notify the other party, conciliator and the local government of a planned strike in writing two weeks in advance (Kallaste 2008, 175). Notification period for warning and supporting strikes is three days. During the years 1996-2002, only eight warning strikes and

one supporting strike were arranged but neither became lockouts nor “real” strikes (Kallaste 2005, 117). A one-day strike of educational staff was arranged in September 2003 (in which 18,000 employees participated according to TALO) and a seven-day strike occurred in September 2004 that promoted better working conditions for locomotive crew (*ibid*). There were a few strike threats in transport and the health care sector in 2006, which however were resolved before the strikes began (Kallaste 2008, 176).

In Latvia, occupations for which striking is forbidden include judges, public prosecutors, police officers, firemen, border-guards, employees of state security institutions, wardens of imprisonment and persons serving in the Latvian National Armed Forces. In addition to these, workers in “essential services” have a *limited* right to strike, which include occupations in medical assistance, public transport, drinking water supply, electricity and gas producing and supply, communication, air transport monitoring services and services providing meteorological information, concerning security of transportation, waste and sewage collection and purification, radioactive substance and waste storage, utilisation and monitoring services as well as public security services. In the case of a strike, it is the employer’s and the strike committee’s responsibility to carry out “minimum work.” It is worth noting that *solidarity strikes* are forbidden if they do not concern the conclusion or the implementation of a general agreement. (ILO 2004b.)

The procedure of initiating a strike is in itself exhausting for Latvian employees. The demands of employees must be submitted to the employer in written form, who then responds to the demands within three days. If the demands are not met, a special *reconciliation commission* is formed. The commission, which consists of equal numbers of representatives from both parties, is formed within three days of the rejection. Then, parties prepare a formal statement of disagreement and submit it to the commission. The decision of the commission must be made within one week, and the verdict must be of a binding nature. If this fails, further settlement is conducted either by procedure prescribed in the collective agreement or by method of *reconciliation* or *arbitration*. If there is still no agreement, the strike must be announced no later than ten days before the intended start of the strike. Even then, a 75 percent majority vote in favour of the strike is required!

There is little wonder, therefore, why strikes have been non-existent in Latvian private sector during past ten years. Some strikes have occurred in education (1999) and healthcare sector (2004-2005). Intended protests in other public sectors (museums, archives, libraries, juridical institutions and artists) in 2005 were settled before the strikes begun. (Ermsone 2008, 16.)

Lithuanian policies concerning the limited right to strike among essential services are similar to those of Latvia. Lithuanian *Law on the Regulation of Collective Disputes*, dating from 1992, is prominent in the sense that its amendment in 1999 included a clause that made it very difficult in practice to take strike action. The 1999 amendment directly linked strike action to the exhaustion of conciliation procedures, when a strike was described as “a

voluntary refusal of the employees of one or a few enterprises or their groups to structural units to temporarily carry out their work if the collective dispute is not settled or the decision reached by reconciliation committee, labour arbitration or the court of arbitration is not carried out" (Woolfson 2005, 162).

Also, Article 10 of the previously mentioned law, subtitled *Declaration of Strikes* is worth noting, since it discusses the conduct of strikes. Trade unions having the right to call a strike must have the majority of employees of an enterprise as their members. The decision to initiate the strike must be reached in a secret ballot and approved by a two-thirds majority vote of employees. In a structural unit of the enterprise, a two-thirds majority is required *and* the majority vote of the employees of the enterprise. (Woolfson 2005, 163.)

Furthermore, while concluding collective bargaining agreements at levels beyond the enterprise; that is sectoral, inter-sectoral, regional and national level is enforced by Lithuanian law, it is almost impossible to try to gain leverage through an "upper level" strike. In order to call a strike at a level higher than enterprise level, the unions are forced to exercise all the procedural requirements in all enterprises under multi-employer CBA. Simply one employer complying with the conditions of the CBA will entail such strike action illegal (Woolfson 2005, 172).

The 2002 amendment to the Lithuanian Labour Code brought with it modest concessions towards International Labour Organisation (ILO) recommendations emphasising the freedom to form associations and to strike. However, Woolfson (2005, 176) sees the legal suppression of worker discontent in the form of the restriction of strike action as reinforcing rather than dissipating accumulated tensions in the social system, and he concludes that "...the very modest concessions in the new labour code must be assessed against the broader backcloth of sustained efforts to circumscribe labour rights in Lithuania".

The virtual ban of strike action in Lithuania is seen in strike statistics. Whereas there were 55 strikes (involving 3,300 employees) in 2000, there was only one in 2005 involving just 70 employees (Davulis 2008, 35). In the first half of 2007, only one strike occurred in Latvia, in which only four people participated. In Lithuania, following a "strike-free" year in 2006, no strikes occurred during the first three quarters of 2007, although several strikes were expected to occur by the end of the year (Carley 2008, 33).

Ironically, a report published by the Ministry of Social Security and Labour (The Social Report 2005-2006) stated that "there were no strikes organised during the period of 2002-2005, and this can be related to the improving economic situation in Lithuania."

In interviewing representatives of trade union federations, frustrations regarding pre-strike procedure were readily observed:

Trade union official: We have organised "silent" strikes, since our legislation is against strikes. It is a long procedure and manufacturing enterprises have long ago forgotten the issue entirely, because... so many stages must be passed and it takes such a long time. [...]

Interviewer: Consequently, it seems that no strikes have occurred in your factories?

Trade union official: No, at least no legal ones. Some spontaneous stoppages of work have occurred. It is good that they ended successfully, since [the employer] has the right to dismiss employees due to these.

3.11 Summary

There are certain traits of path-dependency (the transition from state socialism to capitalism) in the Baltic context. Nationalism has served as motive power in overcoming ills caused by rapid economic restructuring after the collapse of the Soviet Union. Typically, this has meant implementing ultra-liberal economic policies and promoting foreign direct investment. Wages have risen 15-30 percent in recent years, which has not, however, translated to increased incomes across each industry, or resulted in any considerable increase in average purchasing power. Simultaneously, the consensus of these means has prevented ordinary workers from standing up for their own interests, thus diminishing workers' control over the labour process. In terms of VoC theory, one can speak of 'liberal market economies' denoting the Baltic States rather than 'coordinated market economies'. Due to a wide range of cultural, economic and political reasons, one can refer to a particular 'Baltic labour market regime' instead of a post-socialist one, since this FSU context is far too unique to be extended to cover other geographical regions. This regime is featured as follows (the heuristic framework presented here includes features from other chapters as well):

- Rapid economic reforms towards a neo-liberalistic direction with radical privatisation
- Sudden collapse of foreign trade with the former Soviet republics; open economies
- Relatively high labour turnover and tight labour market due to emigration
- Use of Russian and older labour in unskilled processes
- Use of cheap labour, slow upgrading of industrial processes despite high education levels and rapidly increasing wages
- In spite of strict dismissal legislation, the welfare provisions (unemployment benefits, pension plans) modest or not sufficient for 'established labour' with relatively little state-sponsored reproduction of labour
- Weak union power, low union density

There is, indeed, a vast difference between the Baltic and Nordic countries when it comes to industrial relations. Contrary to labour conditions in the Nordic countries, Baltic people do not rely on trade unions to defend their rights, nor do they utilise other indirect representation or direct participation mechanisms. Unionisation rates have decreased steadily from almost one hundred to 10-20 percent or below in almost twenty years of transition. Collective bargaining is relatively uncommon in Baltic workplaces: around one quarter of workers are covered under collective agreements. In the absence of the institutionalised form of workplace-level bargains, it is more effective to speak of these negotiations in terms of 'workplace bargaining', consisting of spheres of collective and individual bargaining. Accordingly, with regard to

employee participation, there is a good case for using the term 'direct participation' alongside with 'indirect participation' or 'representative participation'.

Along with Poland, the Baltic States have the lowest densities in employers' organisations among the newly accessed EU countries. Only 30 percent of Estonian employers, less than 30 percent of Latvian employers and about 20 percent of Lithuanian employers are members of an industrial organisation. Furthermore, the role of the affiliation is different from that of the Nordic employers. While in the Nordic countries, emphasis on the activity of industrial associations has been in the best interest *vis-à-vis* the labour market (they act as 'employers'), in the Baltic States, the emphasis of employers' associations has been on the role of 'producer', which best serves their interests *vis-à-vis* state agencies and other institutions. Due to the lack of Baltic employers' organisations to act as genuine industrial relations associations, it has been difficult for unions to establish negotiations crucial to 'social dialogue' in Continental and Northern Europe.

There are both actor-centered (trade unions as actors, individualist orientations, social customs) as well as institutional (*de facto* prohibition of strike action in some sectors, labour laws) reasons for the decline of trade unionism. In particular, the activity of the Baltic trade unions is hampered by labour laws restricting strike action or the introduction of other forms of employee representation as substitutes for trade unions. Institutional support may satisfy the objectives of trade unions, as the Ghent-system has done in Finland, Sweden, Denmark and Belgium. Also, tax deductions for trade union membership fees serve as an incentive to remain members. Such institutional support is lacking in the Baltic States. Still, all of these factors cannot explain the weakness of the labour movement entirely.

The labour situation would be different had there been an atmosphere of discontent among Baltic labour and if historical had played a supportive role in the trade union movement. Taylorist management style was introduced in Finland at the beginning of 20th century. This, in turn, aided the progression of the labour movement by producing dissatisfaction at workplaces (Kettunen 1994). Unfortunately, this 'mechanism' has not proved successful in Tayloristic workplaces in the Baltic States, where the term "workers' protest" still has an undesirable political connotation in the post-socialistic, 'getting-rid-of-the-Soviet-past' atmosphere. Furthermore, the Baltic countries have been member states of the EU since May 2004, which has made it possible for workers to move abroad if working and labour conditions prove unsatisfactory. Government policy has supported this development; social matters have not been very high on the political agenda and campaigns have been launched to attract even more low-wage, high-skilled labour from Ukraine and Belarus.

One can doubt the assumption that divergence between geographically close labour market regimes lasts forever. Multinational enterprises can overrun national "rigidities" when appealing to the European "freedoms." The unexpectedly negative outcome for the Swedish trade union in the European

Court of Justice in the Laval case supports this view. The opportunity for companies from highly unionised Nordic countries to invest in sparsely unionised Baltic countries raises the spectre of “regime shopping,” with employers seeking to move to locations where unions have not extended their influence. On the one hand, Nordic companies may well apply aspects of their industrial relations in their operations abroad (Christopherson and Lillie 2005) but on the other hand, host country institutions and labour regulations may prove more influential than those of the country of origin (see Marginson and Meardi 2006). As cases in point, German multinationals have not transferred the German “production regime” or German industrial relations practices to CEE countries, using instead a hybrid of home and host country practices (Bluhm 2001; Fichter 2003). Such management strategies we turn now.

4 FOREIGN DIRECT INVESTMENT AND MANAGEMENT STRATEGIES

4.1 Definition and extent of foreign direct investment

The establishment of Nordic companies in the Baltic States is a result of capital inflow (and to some extent also the movement of expatriate workers) into production sites. In economic terms, this activity is termed foreign direct investment (FDI). It is simply direct investment in productive assets by a company located in another country. If we think of this activity in terms of value chain governance, FDI is based on a hierarchy, where “the dominant form of governance is managerial control, flowing from managers to subordinates or from headquarters to subsidiaries or affiliates” (Gereffi et al. 2005). In other words, as FDI takes place, the investor finds an ideal combination of ownership, location and internationalisation (Harzing 2004), and it thereby prefers a controlling stake over subsidiary to subcontracting, outsourcing or inter-firm trade.

In the 1990s, internationalisation of production, distribution and management of goods and services was accelerated, while FDI, proliferation of multinational companies (MNCs) and the ‘network economy’ became increasingly interwoven (Castells 2000, 116). In fact, FDI increased by a factor of 4 during 1980-1995, at a rate that was faster than the world output and world trade (*ibid*). Most of global FDI comes from a few OECD countries. Although the United States is the dominant power, its share of overall FDI has fallen from about 50 percent in the 1960s to about 25 percent in the 1990s. Japanese, German, UK, French, Dutch, Swedish and Swiss investors also play a considerable role. The bulk of FDI is directed to the developed countries: in 1960, they accounted for two thirds of FDI stocks and by the end of the 1990s, the share had grown to three quarters (Castells 2000, 117).

The figures of inward and outward FDI of Nordic countries correspond to other developed economies of the same size. Inward FDI stock in Denmark amounted to 138 billion US Dollars (USD), in Finland 64 billion USD, Norway

66 billion USD and Sweden 218 billion in 2006.²⁵ Outward stock was 150 billion USD of Denmark, 91 billion USD of Finland, 121 billion USD of Norway and 263 billion of Sweden in the same year. These figures were comparable to those of Austria (78 and 77 billion USD, respectively) and Ireland (179 and 125 billion USD) (World Investment Report 2007, 255).

Worldwide FDI proliferated in the 1990s as the investment climate improved and the benefits of foreign investment became well known (Moosa 2002, 18). Partially due to these factors, direct obstacles to FDI were removed and the use of investment incentives increased. More particularly, the growth in FDI after 1992 took place for three reasons (Moosa 2002, 17):

- (i) FDI was no longer confined to large firms, as an increasing number of smaller firms became multinational
- (ii) the sectoral diversity of FDI broadened, with the share of the service sector rising sharply, and
- (iii) the number of countries that were outward investors or hosts of FDI rose considerably.

Some first-stage investments were immediate successes and brought with them fundamental changes on a European scale. Examples include Volkswagen's investment in Skoda Cars, General Electric's in Tunsgam, and Asea Brown Boveri's acquisition of regional network of power engineering firms (Radice 1995, 120). Further, at the end of 1990s, a slight change in FDI profile from labour intensive mass production to knowledge intensive activity was seen and a parallel development of further relocation of labour intensive facilities to the East, particularly to China, was evidenced (Galgóczy 2004, 452).

The Baltic States have shown good management skills in providing stability and dynamism in their national economic policy-making. This has been of great importance for attracting investors from abroad and consequently, FDI results have been excellent in Estonia and fairly good in Latvia and Lithuania. (Hunya 2004a, 94; Tiusanen 2004, 3.) Gradev (2001, 3) emphasises the heavy FDI contribution to four CEE countries: Hungary, Poland, the Czech Republic and Estonia. Indeed, Estonia is a remarkable exception, given its high rate of per capita FDI (e.g. Hunya 2004a, 94) and therefore stands out among the Baltic States.

Estonia is a popular locale for Nordic multinationals, as they can penetrate the Baltic market from headquarters based in Tallinn (Hunya 2004a, 96). As a result, there is strong FDI concentration in Tallinn – 80 percent of the total stock of Estonia. For this reason, Swedish acquisitions of Baltic banks have been common in Estonia. Due to this, Sweden has taken the 'lion's share' of the total investments in the finance sector. The fact that Nordic companies use Estonia as their headquarters is seen in Estonia's significant outward FDI: an overwhelming share of Estonia's outward FDI is executed by foreign affiliates

²⁵ FDI figures are provided in US dollars in this study due to the fact that most accounts considering FDI flows during the time span of the research used this currency. All other important figures (GDP, wage numbers, turnover) are reported in Euro.

and three-quarters of it flows out into Lithuania and Latvia (Hunya 2004a, 96). Latvia has the advantage of being situated at the centre of the Baltic States. This is probably why Finnish investors often do not leave Latvia after establishing business there (FINPRO 2005a, 18).

While foreign direct investment in CEE countries comes mainly from the Continental Europe and the United States, the Baltic States have gained most of their investment from Nordic countries (at least at the time the fieldwork was conducted, during 2004-2005). In Estonia, Swedish (57.5 percent of the total investment stock) and Finnish (18.6 percent) investments dominated (FINPRO 2005c, 18), whereas in Latvia, German investment was the most active (17 percent), followed by Swedish (12 percent), Dutch (9 percent), Danish (9 percent), Estonian (8 percent) and Finnish (8 percent) (FINPRO 2005a, 16). In Lithuania, Danish (15.2 percent) and Swedish (15 percent) investments were equally active followed by German (11.4 percent), Russian (8.4 percent) and Finnish investments (7.8 percent) (FINPRO 2005b, 18). The Norwegian contribution to FDI was more modest, though worth mentioning. According to calculations made on the basis of Hunya's figures (2004a, 98), Norwegian capital accounted for 3 percent of Estonian, 7 percent of Latvian and 3 percent of Lithuanian foreign direct investment stock in 2002. Altogether, based on the same calculations, the aggregate Nordic investment accounted for three-quarters of Estonian, one third of Latvian and a third of Lithuanian investment stock (see Table 4.1).

TABLE 4.1 Proportions of Nordic FDI of the aggregate FDI stock in the Baltic States (based on Hunya 2004a, 98 [the FDI figures from 2002])

	Estonia, million USD	Latvia, million USD	Lithuania, million USD	Total, million USD	Percentage of total Nordic investment
Denmark	106	301	683	1,090	19
Finland	1,153	197	246	1,596	28
Norway	137	189	117	443	8
Sweden	1,731	331	609	2,671	46
Nordic total:	3,127	1,018	1,655	5,800	100
Estonia		164	467	631	
Germany	97	346	382	825	
UK	93	117	214	424	
USA	300	193	345	838	
Russia	52	136	208	396	
Netherlands	167	132	240	539	
Other	392	646	471	1,509	
TOTAL	4,228	2,752	3,982	10,962	

The above table, which consists of the portions of the FDI stock in Estonia, Latvia and Lithuania reveals that Estonia (4,228 million USD) received slightly more in total FDI assets than Lithuania (3,982 million USD), whereas Latvia (2,752 million USD) clearly received a smaller "slice of the pie." In regards to Nordic investments in the Baltic States in 2002, a half (3,127 million USD = 54

percent) of the total went to Estonia, followed by Lithuania (1,655 million USD = 29 percent) and Latvia (1018 million USD = 18 percent). What is exceptional here is the Nordic stake of the total stock compared to the non-Nordic investment: in Estonia it accounted for 74 percent, in Latvia 37 percent and in Lithuania 42 percent. The total aggregate Nordic FDI in the Baltic countries amounted to 5.8 billion USD in 2002, which accounted for 53 percent of the total stock.

Manufacturing sector had received 18.8 percent of the FDI stock in Estonia, 15.2 percent in Latvia and 29.3 percent in Lithuania in 2002 (Hunya 2004a, 100). Manufacturing had got the biggest share of FDI stock in Lithuania, whereas finance (28 percent) had received most FDI in Estonia and business services (23.8 percent) in Latvia (*ibid*). According to Runevic's (2004) statistics, structure of manufacturing FDI in the Baltic States in 1996 and 2002 was as follows:

TABLE 4.2 Structure of manufacturing FDI in the Baltic States in 1996 and 2002, % (Runevic 2004, 568)

Manufacturing branch	Estonia		Latvia		Lithuania	
	1996	2002	1996	2002	1996	2002
Food, beverages and tobacco	31.0	22.6	50.9	29.9	40.9	42.4
Textile and textile products	10.1	13.8	12.0	11.9	9.0	12.2
Leather and leather products	0.6	-	0.1	0.04	1.4	3.5
Wood and wood products (excl. furniture)	0.5	-	12.0	17.6	0.1	0.1
Pulp, paper, publishing and printing	6.0	16.5	0.4	0.5	4.1	4.8
Coke, refined petroleum and nuclear fuel	5.5	-	2.0	1.5	4.4	4.1
Chemicals and man-made fibers	17.6	9.7	0.4	0.3	14.3	3.4
Rubber and plastics	3.0	1.1	0.9	1.0	1.1	3.9
Basic metals and fabricated metals	16.8	-	1.8	2.5	5.3	6.9
Electrical and computer equipment	4.2	3.3	1.0	1.8	1.2	1.3
Optical equipment	5.7	6.2	0.3	0.6	0.8	0.9
Transport, machinery and equipment	4.0	6.9	0.1	4.4	0.5	5.5
Other (including furniture)	7.2	4.0	-	-	1.0	1.3

Most of the manufacturing FDI flowed into low-tech sectors such as wood processing (including paper and furniture), textiles and food. These three industries accounted for almost 40 percent of manufacturing FDI in Estonia, 47 percent in Latvia and 55 percent in Lithuania in 2002 (Runevic 2004, 567).

4.2 Governments as promoters of investment

Government policies play an important role in attracting foreign direct investment and in influencing the type of investment. Post-communist countries, in particular, see FDI as being vital for their economies. Moosa (2002, 4) points out that inward FDI helps the transformation of the former communist countries, since it completes domestic savings, contributes to total investment in the domestic economy and bring advanced technology, management skills and access to export markets.

Hall and Soskice (2001, 49) argue that the institutional structure of the economy encourages certain kinds of investments: fluid market settings encourage investments in *switchable assets*, while the dense institutional networks enhance investment in *specific* or *co-specific assets*.²⁶ They illustrate this with examples of the activity of big multinationals (*ibid*, 57):

...companies may move some of their activities to liberal market economies, not simply to lower labor costs, but to secure access to institutional support for radical innovation. [...] Conversely, companies may locate other activities in coordinated market economies in order to secure access to the quality control, skill levels, and capacities for incremental innovation that their institutional frameworks offer.

That is to say, the governments of the Baltic States have contributed not only to the situation, in which they have obtained a considerable amount of foreign direct investment but also to the type of investment characteristic of these countries. Thus, the tax policy and labour market regulation in Estonia, Latvia and Lithuania implicitly tell us what kind of investments they desire to gain. The race for FDI within the EU has resulted in governments' active involvement in such policies as subsidies and tax reductions (Oxelheim and Ghauri 2004, 5). The EU also contributes to the relocation of production within the EU by subsidising some transfers (e.g. when Continental moved its tire production from Sweden to Portugal, the EU subsidised it with 50 million Euro) (*ibid*). Also, regional support programmes are extensive. A classic example is the expansion of Ford's production site in Wales at the expense of the closure of a production site in Sweden. The UK government subsidised this transaction by 20 million Euro.

The position of the post-socialist entrepreneur is constrained by various stakeholders, such as privatisation agencies, workers, ministries and the local community. Given the situation, he/she must resort to his/her own instincts to make strategic, tactical and operational decisions (Radosevic 1997, 23). Here, a foreign investor can come to the rescue. The main capabilities of foreign stakeholders are the financial resources and production competencies. Also, the

²⁶ Hall and Soskice (2001, 17) explain the concepts of switchable assets as "assets whose value can be realised if diverted to other purposes" and specific or co-specific assets as "assets that cannot readily be turned to another purpose and assets whose returns depend heavily on the active cooperation of others." The switchable assets are typically general skills and multi-purpose technologies, the co-specific assets include, for instance, industry-specific training and collaborative R&D.

foreign newcomer has the benefit of being unattached to the local community, with no previous responsibilities or reputation. Radosevic (*ibid*, 25) even concludes that the foreign affiliate can only transform the internal culture and add value to existing production competencies. The 'foreign affiliate', however, may be either an investor or a strategic partner.

According to Hunya (2004b), some recently joined EU members have realised that sole emphasis on attracting investment is short-sighted and they benefit more from keeping foreign investors committed to the host country, which has potential positive spill-over effects. For example, Hungary and the Czech Republic have launched programmes with the intent to support local suppliers in improving their technological, financial and knowledge base (*ibid*). Ultimately, it depends on the strategic aims of the multinational company whether they gain a competitive advantage on the development of technology and labour skills at their subsidiaries. If the principal firm opts for subsidiary upgrading, it can be regarded as a "high-road" to investment.

4.3 Privatisation in the Baltic States

Privatisation has encouraged investors to turn their attention towards transitional economies such as those encountered in the Baltic region. Foreign investors were able to acquire relatively cheap and established enterprises by this means in the initial stage of privatisation (Reiljan 2002, 13.) The CEE countries have implemented different policies in privatisation, which in turn have affected foreign investment patterns. Hungary and Estonia have relied most clearly on traditional FDI from the beginning of the 1990s, whereas voucher privatisation has been the dominant policy in the Czech Republic, Slovakia, Bulgaria and Romania. At first, Latvia chose to lease and provide its citizens with vouchers, thus excluding foreign investors in the outset of the transition; Lithuania has provided the investors with lists of earmarked companies and Slovenia arranged ownership schemes including management and employee buyouts. (Gradev 2001, 4; Hunya 2004a, 103.)

Privatisation models vary between different Baltic countries according to the "path" chosen in their transition period since the time of *perestroika* (Mygind 1997, 134). Whereas radical reforms were introduced in Estonia under the banner of nationalism in order to catch up with the Western world, in Latvia the national question proved a barrier that for a short period resulted in a deadlock in the political process (*ibid*). Two opposing approaches to privatisation were competing in Estonia in the beginning of the 1990s, where the *national line* fought against the *technocratic line* led by the bureaucrats from the earlier stages (Mygind 1997, 136). The latter proved to be the winner and the privatisation process was characterised by acquisitions either by (often foreign) core investors or the existing management team. The process was slower in Latvia, where insiders first had an advantage but in 1994, the Latvian Privatisation Agency was given the key role which paved the way to increased

foreign investment (*ibid*). The development of political reforms took a different form in Lithuania, where egalitarianism played a greater role among leading politicians. This had a significant impact on privatisation methods (Mygind 1997, 137).

TABLE 4.3 Political development, privatisation and employee ownership in the Baltic States (Mygind 1997, 135)

Balticum	Estonia	Latvia	Lithuania
Fight for independence	IME programme, May 1989: Mixed economy with 'peoples enterprises'.	Workers' Council some role at the enterprise level. Weak labour organisations.	Early preparation of reforms: shares to employees Feb 1990. equalitarian values => voucher privatisation Feb 1991. Restitution Restitution important in agriculture for citizens living in Lithuania.
Economic policy: from experiments to preparation for a 'mixed economy'.	Employee ownership seen as instrument for liberalising enterprises from Soviet rule. Employee ownership gets lower priority as claims for independence and market economy gain ground.		
After regaining independence - before first elections	Fight between <i>national line</i> for voucher privatisation and <i>technocratic line</i> favouring direct sale of enterprises. Small privatisation: advantages for employees, diminished from May 1992. June 1992 intro of Kroon, no citizenship and voting rights to Russians, liberal economic policy, privatisation slow.	Using part of old constitution, no citizenship and voting rights to Russians, privatisation fast in agriculture (few Russians), government and parliament in a deadlock on citizenship and economic policy. Decentralisation and privatisation of municipalities: small privatisation; branch ministries: large privatisation, some scope for insiders, more emphasis on restitution.	Minorities given full citizenship; unions somewhat involved. Employees' protests against early privatisation => 30 percent of shares to employees at preferential price. Also other preferences for insiders mainly supported by strong industrial lobby.
National forces split, complex choices on citizenship, constitution, economic policy => new conflicts, unclear interests, volatility.			
After first elections	Election September 1992. New constitution approved. Centre-right government programme: hardline nationalism, THA-privatisation introduced in the summer 1992. No advantage for employees. Sept 1994 Prime Minister steps down after scandal. Elections in March 1995. Opposition wins. Unchanged privatisation policy.	Election June 1993. Centre-right government, continued reform. Privatisation centralised, with privatisation agency. Summer 1994, voucher system with slow start. Government crisis in July 1994. Centre-left government from Sept 1994. First international tender in Dec 1994. In 1995 public offerings, election Oct 1995. Deadlock, centre-left nationalist government. Voucher programme finished 1995. Managers/old networks still in a strong position, foreign capital not important.	Election Oct-Nov 1992. Presidential election Feb 1993. Labour party majority. Support from workers and farm labourers who were dissatisfied with privatisation => adjustments. Employee share rises to 50 percent. Privatisation slows down in 1993, but accelerates in 1994.
More homogeneous and well-defined interests. Russian troops out August 1993 in Lithuania, August 1994 in Estonia and Latvia.			

The issue of employee ownership has been important with respect to emerging industrial relations in the Baltic States. According to Mygind (1997, 134), fragile unions in Estonia did not promote employee ownership. Lithuania was at the other extreme – some sort of employee ownership was on the union's agenda

after the regaining of independence and a voucher system gained strong support from workers. Consequently, managers usually had to form alliances with groups of employees when seeking to acquire an enterprise (*ibid*, 137). The evolution of employee ownership in Latvia can perhaps best be described as being in the middle of these two extremes.

The “road” to privatisation adopted in Lithuania is reminiscent of that in Russia, where both managers and workers became owners of businesses through privatisation. This may have a profound impact on the development of a shared interest between these two groups. This way, “the work collective as a mini community and manager as guardian of his workers, restored” (Nikula 1997, 127).

Lithuania has been a forerunner in the privatisation of former state-owned companies in the Baltic States (Mygind 1997, 142). Privatisation in the form of leasing and new co-operatives was more developed at an earlier stage in Estonia and Latvia after those countries regained independence, at which time however the legislation for small and large privatisation was already in place in Lithuania. The privatisation was carried out within the framework of the so-called LIPSP programme, which also included provisions for employee ownership in large enterprises. In 1992, employees were able to buy 30 percent of the shares of the enterprise and as of 1993 employees were eligible to buy as much as 50 percent of the shares. Although the option of selling state-owned enterprises to foreigners was included in the programme in 1992, its use was not widespread until 1995 (*ibid*).

4.4 Entry mode

Entry mode is the way in which foreign investment is made in practice or how the site is “entered.” Although mode of entry relates to the industrial relations at the subsidiary, it does not determine them (see e.g. Marginson and Meardi 2006). Furthermore, there is no direct link between product market and entry mode. However, the labour market in which the foreign company invests might contribute to the mode of entry. Based on FDI literature, four types of entry exist: greenfield, brownfield, acquisition and joint venture.

Greenfield site is a new plant in terms of premises, production technology and labour (although equipment may have been brought from another unit and expatriates hired to the new factory). According to Meyer and Estrin (2003, 12) this approach to the market “entails building a subsidiary from bottom up to enable foreign sale and/or production.” Hallier and Leopold (2000) argue that greenfield locations certainly allow for employers to establish a coherent system of work organisation, job design and personnel policy through means of HRM. Furthermore, greenfield sites are seen as the standard bearers of the high commitment approach (*ibid*). *Brownfield* investment is a quasi-type entry mode, for it is an acquisition with additional contributions to new equipment, infrastructure and/or technological changes. In a way, it resembles greenfield

investment in terms of expenses and use of resources (see e.g. Moosa 2002, 13). Brownfield entry offers the potential for anticipated returns for the investor, as labour costs are already known since labour relations are established. *Acquisition* is “purchase of stock in an already existing company in an amount sufficient to confer control” (Kogut and Singh 1988). In the 1990s, acquisitions were sometimes related to privatisation in CEE countries. This entry mode facilitates quick entry to local resources (i.e. access to local networks and business licenses) (*ibid*). *Joint venture* is established by joining forces of two or more parties. This type of company may be started as a greenfield one or by importing of a portion of employees from a local partner to the collective enterprise.

The process of privatisation influences the shape employment relations will take with foreign investment in the post-socialist CEE countries. Makó and Novoszáth (1995, 255-256) maintain that in Hungary, management has acknowledged that the existence of trade unions in joint ventures basing on privatised state-owned companies paves the way to developing of partnerships in the post-socialist time. Managements of greenfield sites, however, tend to question the relevance of trade unions and are disinclined to acknowledge unions’ legitimacy. Findings suggest that Japanese work organisations are more typical at greenfield sites, whereas established organisations in brownfield sites display a more Scandinavian type of group work (Frohlich and Pekruhl 1996, 119).

Apart from the greenfield start, the modes of entry may be considered learning processes or “teaching projects” on the part of the foreign partner. This is particularly true of joint ventures. Liuhto (1993, 40) regards the joint venture boom in Eastern European markets as one of the largest importers of Western managerial behaviour to the East. This mode of entry allows a form for close co-operation between the Eastern and the Western partners.

FDI tends to create new jobs and increase production capacity in host countries. A difference between greenfield and M&A (merger and acquisition) investments should be addressed. Successful greenfield investments will provide new jobs and in a tight labour market, also raise real wages (Oxelheim and Ghauri 2004, 10). M&A investments pose a dilemma for the labour market: in case of an under-utilised asset, the acquisition may have a positive impact on employment but alternatively, the acquiring firm may have motives that lead to downsizing (*ibid*). In the latter case, the investor merely takes over a company in search of market dominance through closing down the acquired company.

The question of whether entry mode could serve as an independent variable in the research of FDI impact on employee relations is worth pondering. It could prove fruitful to some extent. It can be assumed that greenfield investments are more difficult to unionise than acquisitions, for in the latter type, the work organisation is more or less a carry-over from the previous regime and Soviet legacies would prevail. My data, however, shows some inconsistencies in this assumption. There may be greenfields in which trade unions have been created and acquisitions with carry-overs from the

Soviet time in organisation of work in which there may be no trace of union movement. Besides the findings presented in this research, there is also other empirical evidence (Marginson and Meardi 2006, 105), which illustrates the weak correlation between entry mode and diffusion of the European social model from EU-originated companies into subsidiaries in New Member states.

4.5 Motivation of investment

At the initial stages of transition in CEE countries, the objectives of Western investors could be divided broadly into two: *market growth* and *low-cost production* (Radice 1995, 118). As a matter of fact, these two objectives function as separate *investment orientations*, while market seeking and efficiency-seeking investments represent the most typical ones. While the entry mode (acquisition, greenfield, brownfield, joint venture) serves only as a means of achieving the goals set by the foreign company, the investment orientation springs up from the business strategy itself as the firm seeks to meet challenges from the product market.

Roughly said, three types of investment orientation can be applied to the Baltic environment: market, efficiency and resource-seeking orientations (the types based on Gradev 2001; Hunya 2004a; Marginson and Meardi 2006; Meyer and Estrin 2003; Milberg 2004; Reiljan 2002). The first is a horizontal investment type and the latter two are vertical by nature (Milberg 2004, 6-7). There are also natural-resource seeking and export oriented approaches but they either play a minor role in the Baltic context (the former case) or they are embedded as an attribute in other approaches (when it comes to export orientation).²⁷

Market-seeking orientation is the easiest to define, since all the literature referred to here agree upon its goals. It comprises subsidiaries of foreign companies, which are characteristically horizontal multinational companies and which seek market shares or a foothold in the market (Hunya 2004a, 104; Marginson and Meardi 2006, 94; Reiljan 2002, 11). Given a small internal market, Swedish industry is internationally oriented, which has led to a notion that the majority of FDI is of the market-seeking type (Eliasson and Johansson 1994, 100). Gradev (2001, 9) regards the market-seeking type as the most common type of foreign investment in the CEE region. According to Reiljan (2002, 16), 65 percent of the FDI in Estonia falls into this investment orientation type. Since these estimations include financial, real estate, service as well as manufacturing companies and the other sectors are more market-oriented than the manufacturing industry, we can assume that for the case companies in the Baltic States the pattern of investment may go in a different direction. Besides the obvious interest in the market, these companies may also seek low labour

²⁷ Hunya (2004a, 104) speaks of export-oriented investment with the reservation that this investment type comprises the vertical corporations which are in pursuit of efficiency or resources. Therefore, they can be either efficiency-oriented or resource-seeking investments.

costs but the latter motive is not as strong in comparison (Gradev 2001, 10). Market-seeking investors may seek a local partner and offer market intelligence, access to a distribution network, brand names and market share in exchange for production facilities and workforce (e.g. Meyer and Estrin 2003, 15).

Efficiency-oriented investments are associated with lower labour costs (Gradev 2001, 10; Reiljan 2002, 16-18). According to Reiljan (2002, 27), one-fifth of the FDI in Estonia falls into this category. There are two sub-categories of efficiency-seeking FDI: 'first-generation' outward processing operations and 'second-generation' implantations in international networks (Marginson and Meardi 2006, 94-95). According to Marginson and Meardi (*ibid*), *first-generation* operations involve relocation to the New Member States of labour-intensive, low value-added activities by multinationals on either subcontract or a wholly owned basis. They caution against the repercussions: "such investment can be regarded as escaping the requirements that the European social model places on employment practice and its governance, in Western Europe." The *second generation* of efficiency-seeking investment emphasises comparative advantage in unit labour costs, that is to say, the combination of labour costs, labour quality (e.g. skills) and labour productivity (Marginson and Meardi's 2006, 95). Investors in human resources are in search of a skills-based labour force or an optimal combination of location and labour matching the business idea. This orientation type may overlap with the market-seeking orientation, for both orientations may rely on human resources.

One feature that second generation efficiency-seeking investments can be characterised by its possible *spill-over* effect. Spill-over can embrace both a quantitative dimension (e.g. employment creation in local suppliers to FDI operations) and a qualitative dimension (skill upgrading, improved employment trends or industrial relations patterns). As cited by Marginson and Meardi (2006, 98):

The potential for spillover is greatest when investors locate in new industrial parks, helping to foster local production networks or when they move in 'clusters' as exemplified by those Italian small and medium enterprises rooted in local industrial districts which are investing in selected areas in Slovakia and Romania.

Resource-seeking investment is driven by the desire of a principal firm to control supplies of natural resources or primary commodities used in the production of other goods (Milberg 2004, 7). Although this investment orientation has a connotation associated with colonialist investment at the end of the 19th and in the beginning of the 20th centuries and it is usually directed at resource-intensive steel and fabricated metal production (*ibid*), I am extending the scope of this orientation type to the acquisition of strategic quota-based production assets (quotas set by the EU) in the food processing industry. Extensions like this are not extraordinary in regards to resource-seeking investment: formerly, some analysts added the motive of "strategic asset seeking" to European investment in the Silicon Valley (*ibid*).

Companies entering developing commercial or labour markets have various motives that concern their host-country market and labour policies.

However, most often the ultimate idea is to combine numerical flexibility with some other investment orientation or to apply the efficiency-seeking strategy alone. Gradev (2001, 11) states: "...enterprise strategy formulation generally involves a complex set of objectives, involving a combination of motives. Cheap labour is usually one among a number of other motivating factors." This view is supported by the notion that in the 1990s, FDI in CEE countries primarily capitalised on low labour costs (Galgóczi 2004, 451). In the early years, when CEE labour costs were only 10 percent of Western European levels, CEE countries provided a production base for European and World markets in labour-intensive operations such as clothing, footwear, consumer durables, electronics assembly and furniture (Radice 1995, 119).

4.6 The role of subsidiary and subsidiary upgrading

Increased global competition drives companies in advanced industrial countries to achieve dynamic competitiveness. This may occur in two ways. First, firms can attempt to raise the efficiency of production of existing products or they can opt to upgrade skills and assets throughout their value chains by the successful innovation of new products (Dunning 1995). Our interest lies in the extent that the latter way is used by Nordic investors in Baltic manufacturing. One could speak of this 'way' in terms of a "high road" to development (see a more detailed discussion in Chapter 2.3.2). In regards to national economies on the whole, Nordic countries have characteristically chosen the "high road" to economic development through CME policies and this research further attempts to discern which strategy was chosen at the investigated subsidiaries.

In Estonia, foreign enterprises invested for the purpose of gaining big returns and not for the purpose of upgrading Estonian manufacturing. Actually, foreign investments and especially Nordic investments, have contributed to the impaired structure of the labour force in Estonia. Emphasis has been on labour-intensive investment at the cost of investments in human capital (ERDC 2003, 20-21). This type of investment strategy may prove fateful for the manufacturing industry. For instance, AS Elcoteq Tallinn reduced its workforce during the IT recession, first in Estonia and then in Hungary (ERDC 2003, 30-31), while one of the company's main business objectives has been the emphasis on cheap labour (Äripäev 9 March 2005). Researchers from Tallinn's Technical University have warned that investments in the low-tech sector may contribute to an economic crisis. Estonia will suffer in the near future if it continues to produce cheap and simple products with a relatively poorly qualified labour force (the Baltic Times 29.9.2004).

According to the Economic Development in Latvia report (2003, 49), foreign investment in manufacturing has been dominated by investments in low and medium technology sectors. It must be noted that foreign investors have not initiated many greenfield projects in Latvia, which indicates that they have not introduced much in the way of new and modern technologies (*ibid*).

The government's export development program has encouraged more wood-based, value-added manufacturing projects (Gunter 2004). In Lithuania, the situation differs from Estonia and Latvia, since economic growth there is based on domestic industry (Heliste et al. 2007).

Subsidiary upgrading can be considered by examining the role of subsidiary in the entire production chain in the multinational company. White and Poynter (1984) have provided a categorisation according to which the roles of subsidiaries can be investigated. They have described five different roles (enlisted in Dörrenbächer and Gammelgaard 2004):

1. **Marketing satellites**, those subsidiaries that market single products or a variety of products in the host country while providing customers limited services;
2. **Miniature replicas**, those subsidiaries that manufacture single products or a variety of products for the parent company and also market in the host country;
3. **Rationalised manufacturers**, those subsidiaries that produce single products or a variety of products for the world market. Other units take responsibility for R&D, marketing and other phases of production;
4. **Product specialists** take full responsibility for a product, since the subsidiary develops, manufactures and sells it to the world market; and
5. **Strategic independent units** develop, manufacture and market products determined by the parent company and also have the authority to design and manufacture new products and expand to new markets.

Dörrenbächer and Gammelgaard (2004) defined the upgrading of the subsidiary as a shift over time from a lower level to a higher one in a five-step ranking ranging from market satellites to strategic independent units. Along with the guidelines laid down by White and Poynter (1984), they examined subsidiaries according to three criteria: (1) *market scope*, denoting the number and extent of geographical markets the subsidiary is dealing with; (2) *product scope*, indicating the sum and scope of product markets that the subsidiary is involved in; and (3) *value-adding scope*, signifying the value adding activities granted to the subsidiary with an emphasis on development, production and marketing.

Often subsidiaries are established with a lower level of competence (such as in cases of marketing satellites, miniature replicas or rationalised manufacturers) and close control by the principal firm (Hunya 2004b). Later, subsidiaries may be upgraded to a higher level of competence. Such subsidiaries are referred to as 'product specialists' and 'strategic independent units'. It is possible that the processes in the peripheral (Baltic) plants are upgraded with the hope of increasing productivity. Particular production technology does not determine any particular social organisation but there is a possibility of organisational choice (Julkunen 1987, 57). Even in highly competitive environments there is always some room left for management to make choices and manoeuvre (Marchington and Parker 1990, 85). There is evidence from the clothing industry, for example, that Taylorism is not the only way of organising work. In Britain, rapidly changing fashion and quality requirements have led clothing manufacturers to promote new forms of production, moving away from the assembly-line and adopting group work instead (Penn and Sleightouse 1995).

Tavares and Young (2004, 267) paid particular attention to three roles in subsidiary evolution: those of miniature replicas, rationalised manufacturers and product mandates. They re-worked White and Poynter's typology of subsidiary strategies and ended up with three distinct roles of subsidiaries: (1) *autarkic subsidiary*: the subsidiary produces some of the parent's already existing product lines (or related product lines) for the host country market only; (2) *rationalised subsidiary*: the subsidiary produces a certain set of component parts or existing final products for a multi-country or global market; and (3) *product mandate*: the subsidiary has autonomy and creative resources to develop, produce and market a restricted product range (totally innovative products) for multi-country (regional or global) markets. Tavares and Young's approach to subsidiary roles is more focused on the production function of the subsidiary – there is no category for subsidiary specialised solely in marketing.

The nature of the product may not be the only determinant for the role of the subsidiary but whether the corporate strategy relies on a buyer-driven network or a product-driven network does have influence. Wortmann (2005) investigated the role that German multinationals play in the textile and apparel industry and found that home country manufacturers have three different strategies or models of production chains: they are either *high-end branded manufacturers*, *discounters* or *verticals*. The first model is characteristic of high quality (former) manufacturers, which combine lower wages in countries of the European periphery with high technical standards. While this model is best suited to a typical German 'diversified quality production' model, the other two types were untypical ones, since they did not involve a high-end segment that would have upgraded the process of production (*ibid*). It is noteworthy, however, that even in this most German-style model, the European periphery reserved the labour-intensive, standardised part of the production process.

4.7 Investment and managerial strategies

The product market is important for relations in production, capable of producing constraints and opportunities (Ram and Edwards 2003). Certain processes within the circuit of capital that have been considered certainties, such as the local labour processes, may appear to be subject to the product market. For example, flexible specialisation can be a product strategy that also presumes flexibility on the part of the workforce (Hyman 1987; Barrett and Rainnie 2002). Kelly (1985) regards the 'job redesign' movement as a managerial strategy to respond to *disarticulation* of different moments in the circuit of capital, that is, the contradictions between product markets, labour markets and the labour process. Moreover, disarticulation in the circuit of capital is likely to occur in the face of a rapidly transforming product or labour market (*ibid*, 33).

However, product market cannot be ceded *the* determinant role, since the impact of labour market and labour process are pronounced as well. How can all these aspects of the circuit of capital be combined into a single concept, when

the actor-centred approach to labour relations is considered? The answer lies in the very concept of *strategy*. The strategic sphere of the decision-making process includes investment strategy (motive of investment, role of subsidiary) and labour management strategy.²⁸ Boxall and Purcell (2003, 28) claim that it is “possible to find strategy in every business because it is embedded in the important choices the managers and staff of the firm make about what to do and how to do it.” To understand managerial strategy, one can examine the *effects* of the action of management rather than strategic plans (Boxall and Purcell 2003, 28; Julkunen 1987, 193-194; Tainio 1982, 4-5).

From a critical point of view, one needs to question what latitude exists for strategic choices if capitalist production is subject to the determinism of economic forces or laws external to the individual enterprise (Hyman 1987). In reference to Storey (1983), Hyman (1987) questions whether is it realistic to assume the existence of a coherent strategy in industrial relations or if the operation is normally characterised by ‘ad hocery’. Furthermore, to what extent does this ‘strategy’ harmonise with other business objectives relating, for example, to markets, production and technology? Whether a variety of managerial strategies are possible is largely irrelevant in my research, as the only goal of the capital is to extract maximum surplus value. I will draw on Julkunen’s ideas and focus on the notion of ‘circuit of capital’ and competition between different capitals (1987, 379-380). Instead of deriving the changes in technology from the production of surplus value, it is more fruitful to examine technological and organisational changes from the perspective of dual logic of capitalism – from the competition between different capitals and the wage earning relationship – as well as assess the coercive power of economic crises in rationalising the work process. According to Julkunen, in the modern enterprise, the ‘visible hand’ of management strives not only to supervise the workforce but also to control a wider scale of transactions concerning production, realisation and circuit of capital.²⁹

I believe in the existence of a managerial ‘meta-strategy’ that aims to control the labour process in order to extract maximum profits. Managements must resolve the problem of control in one way or another and they more or less stand united behind this goal. Besides putting Baltic labour in its ‘right’ place in the spatially dispersed labour process, this thesis seeks to determine whether a coherent strategy with regard to labour exists or if there is variation and if it is conditioned by the nature and pressures from the product market or by post-socialist institutional characteristics? The industry has repercussions for choosing a particular strategy. To process industries in their developmental

²⁸ Labour management is a rather loose term associated with the use of labour that deals with labour-management relationships as well as the relations in production in general. The choice between different ways of labour use does have consequences for industrial relations (Fleming and Thörnqvist 2003).

²⁹ The circuit of capital, put forward in the second volume of Karl Marx’s *Capital*, can be elucidated as follows: 1) money – 2) production capital – 3) instruments of production (labour is also an instrument of capital without which capital would not be an instrument of production) – 4) production process – 5) commodity capital – 6) money (Kelly 1985, 33; Julkunen 1987, 18).

stage of the product life cycle, management has to take limitations set by the skills base and social relations into account when entering the site, whereas the standardised manufacturing relocation to a different geographical/cultural context is more easily predictable and is more likely to bring forth a competitive advantage.

Once a particular strategy is chosen, management has an impact on the direction in which the Baltic unit is developed. Two avenues of strategic choices are possible: either a 'high' or a 'low' road to the development of the Baltic subsidiary and its work force (we use the same terminology as in the previous chapter in which subsidiary roles were discussed, but now we take a labour process perspective). If model transfer occurs, the high road is chosen. The low road is associated with the downgraded position of the workers in comparison to the entire production chain and the inclination to regard Baltic labour mainly as a numerically flexible pool of labour. The 'arms-length' approach to the subsidiary is also a strategic choice since the LME context in the host country affords the Nordic employer a higher degree of discretion in personnel management than in the more regulated CME context in the home country. Also, a more general question arises: does the chosen way help the Baltic States in upgrading their production processes from the Soviet style to a modern style? Or, given the nature of industries in these countries, are these economies destined to retain the downgraded position in global value chains, especially when foreign investors also opt for the "low road" to technology and human resources in Baltic subsidiaries?

4.8 Summary

Foreign direct investment is seen as direct investment in productive assets that are located in another country. Investment in the Baltic business environment has attracted many small and medium-sized Nordic manufacturers. Nordic capital has gained a strong foothold in the Baltic market: around a half of the foreign direct investment stock originated in Nordic countries in 2002 (Hunya 2004a). Large-scale investments affect the transformation and industrial reorganisation of these post-socialist countries. FDI completes domestic savings, contributes to total investment in the domestic economy and provides advanced technology, management skills and access to export markets.

There may be a negative effect, however, if the production unit in the Baltic region serves as a mere labour-intensive part of the production process. A straightforward and simple argument on behalf of Nordic investment in the Baltic States would be that the firms are simply contributing to a cheap but well qualified labour force in these countries. Indeed, in the earlier stage of transition - in the beginning of the 1990's - the foreign direct investment was almost always linked with cheap labour in manufacturing, which is not necessarily the case today (Tiusanen 2004, 33). Antila and Ylöstalo (2003, 255) speculate that the advantage of low salaries in the Baltic States will disappear in the future. At

that time, enterprises will be forced to emphasise other features of labour, such as quality, reliability and delivery in order to keep production within the country.

On one hand, entry mode (greenfield, brownfield, acquisition or joint venture) is a potential variable in evaluating the impact of investment on employee relations. However, Marginson and Meardi (2006, 101) recognise that the different types of entry modes may have influence in the diffusion of the (European) social model into CEE subsidiaries, although any strong link between these has not been proven in empirical research. They argue that FDI motivation, whether investment is market or efficiency seeking, plays a greater role in model transfer. The motivation of investment is based on decisions made by the headquarters that, in turn, are related to the nature of production and on the pressures from the product market.

Aside from the investment motive, the concept of *subsidiary role* provides an appropriate tool for the analysis of longer-term investment strategies using the “high road” to investment in a subsidiary. White and Poynter (1984), questioned whether the role of subsidiary was meant to be a mere *miniature replica* or *rationalised manufacturer*, or whether its intended role was as a *product specialist*? There is a strong strategic aspect to the market, product and value-adding scope afforded by the principal firm to the subsidiary (for details, see White and Poynter 1984). Therefore, the characteristics of the labour process in subsidiaries are not simply determined by the peripheral location of plants or the “lower” position in the production chain.

5 DATA, METHODS AND ANALYSIS

5.1 Methodological strategy

This research was conducted using a case study approach with a strategic selection method: it was based on choosing appropriate cases for close examination. The criteria for the selection process were that all case companies needed to be in manufacturing, they were to represent different industrial sectors within a country and all three Baltic republics were to be evenly represented in the sample. Four Nordic countries (Denmark, Finland, Norway and Sweden) were also to be represented equally.

Case study is defined in terms of its theoretical foundation rather than by its research techniques, as follows: "to probe in depth the particular circumstances of the organisation and the relation between organisational behaviour and its specific context" (Hartley 1994, 210). Case study research provides the best approach with regard to this study, since it considers the best means for researching power relations and complex social interactions (Kitay and Callus 1998). Compared to surveys, case studies have two advantages: they allow processual, contextual and generally longitudinal analysis of actions and meanings within organisation and they assist in understanding social processes in their organisational and environmental contexts (Hartley 1994, 212). They may also contribute to building theory and generating hypotheses in inductive process (*ibid*, 213). According to Hartley (1994, 209), "a case study approach is not a method as such but rather a research strategy."

Within the strategy, a number of data as well as different methods can be used. The emphasis is generally on qualitative methods but quantitative methods are also used in the framework of case studies. Among qualitative methods, worth noting are participant observation (e.g. Burawoy 1979), researcher's non-participatory observations (e.g. Hartley 1994), semi-structured and unstructured interviews with a variety of informants in the organisation (e.g. Edwards and Scullion 1982). Also, the use of questionnaires in addition to

observation and interviews may also be used (Hartley 1994, 209). Conventionally, case studies are weak in their capacity to generalise to other situations (Hartley 1994, 224). But, when examining organisations, a 'typical' or 'average' organisation – which is required to attain a quantitative sample – is difficult to find. Also, as Hartley (*ibid*) maintains, "because quantitative studies rely on the dispersion of variables in statistical relationships, one cannot be certain about the processes underlying those relationships."

Methodologically, my research setting exhibits a combination of quantitative and qualitative research. There is an inclination towards the use of the survey method, since the base of questions comes from a survey (Antila and Ylöstalo 2003) and there is similarity to a random sample (various industrial sectors and different countries operating inside a selected host country). Despite the apparent emphasis on quantitative methods, qualitative in-depth analysis was pursued in this study by means of additional questioning. Although the mere presence of the researcher on the shop floor or at the worksite cannot be called participatory observation – by making notes during all interview sessions as well as by including visits to the production sites, qualitative analysis was achieved. Furthermore, labour process analysis can never be purely quantitative, since it encompasses such wide institutional and contextual data that must be handled by qualitative analysis. Therefore, the case study approach adopted for this study draws upon both quantitative and qualitative research traditions.

5.2 The cases

The twelve case study companies were selected from 'background' data consisting of around 400 Nordic subsidiaries in the industry and construction sectors in Estonia, Latvia and Lithuania. The data, on the basis of which the twelve case companies were chosen, are presented in the paper Sippola, M. (2005) *Unionisation rate and collective agreement in the construction and manufacturing industries in the Baltic States – focus on Nordic companies*. The companies chosen cannot be considered a statistically representative or profound sample of Nordic affiliates in the previously mentioned sectors, simply for the reason that there has been no previous attempt to form a comprehensive list of Nordic manufacturing firms in Estonia, Latvia and Lithuania that discusses their contribution to the manufacturing sector. The background data provided the most comprehensive set of Nordic subsidiaries in the Baltic States at the time of the research and accordingly, one must regard the sample as being the most inclusive possible at the time of selection.

I use pseudonyms when addressing the researched companies. I have not identified the cases by country of origin or host country, although national institutions and business environments have their own peculiarities within the Nordic and Baltic groups. In combining the countries of origin under the common 'Nordic' denominator and the host countries under the 'Baltic' one, I

have simplified the research setting and thus intentionally left out one potentially important independent variable. It would have been interesting to compare the case companies by distinguishing each country by location. An important reason for the anonymity of the countries and the usage of code names is research ethics: identification of the researched companies would have been too easy had I divided the companies by country of origin or the host country. In Table 5.1, researched firms were sorted by the size of the unit located in the Baltic States and unionised subsidiaries were placed first.

TABLE 5.1 Company and subsidiary characteristics of the researched firms (data from 2004-2006)

	Sector	Market orientation	Company	Entry mode *	Year of start	Size of firm	Size of site	Size of union **	Worker reps
Water Vehicle	metal	global market	horizontal	A	1905	70,000	710	400	shop stewards
Insulator	constr. mat.	local market	horizontal	B	1995	1,850	240	50-75	senior steward + EWC
Prefab	constr. mat.	local market	horizontal	G	2004	8,000	230	35-70	shop steward
Ingredient	food	quota-based market	horizontal	A	1940	10,000	190	100	shop stewards +EWC
Fabrics	textile	export, mass market	vertical	G	2001	200	120	50-60	shop steward
Tailor	textile	export, mass market	vertical	A	1992	100	70	10	shop steward
Steel Works	metal	global market	vertical	J	2000	180	160	-	-
Natural Drink	food	local market	horizontal	B	1992	4,400	150	-	-
Profile Maker	metal	global market	horizontal	G	2004	8,200	70	-	works council
Foodstuff	food	quota-based market	horizontal	B	1991	570	70	-	-
Medicament	pharm.	local and FSU	horizontal	B	1991	3000	60	-	-
Soft Textile	textile	export, mass market	vertical	J	1995	100	50	-	-

Notes:

* entry modes - (A)acquisition, (B)brownfield, (G)greenfield, (J)joint venture

** There are various estimates for this figure.

Table 5.1 allows for the comparison of the production (sector) with the product market (market orientation) within this sample. For example, metalworking firms produce for global markets and textile firms export to mass markets. Horizontal firms have various production sites, whereas vertical firms usually

have one production site. The vertical firm organisation is seen in the large size of the Baltic unit in proportion to the whole company, although the companies themselves are small. The Baltic unit employs almost all workers in vertical organisations.

The data does not support comparisons made according to company size. Company size was not a criterion for choice; therefore, it was quite by accident that one of the companies (*Water Vehicle*) was a large company while the rest were small and medium-sized companies.³⁰ However, from the perspective of capital accumulation, there is no need for distinctions to be made between large and small firms. Both large and small firms operating in a variety of labour and product market contexts seek to balance the pressures of organisational efficiency with the need to harness worker consent (Ram and Edwards 2003). In the case of small firms, face-to-face relations and distinctive processes of familial relationships were articulated more than in large plants. There are hardly any specific mechanisms that have been adduced to explain how the physical size of a plant affects the attitudes of workers (Edwards and Scullion 1982, 26). One 'size effect' is the correlation between size and bureaucracy: as plant size exceeds 100 workers, the rate of bureaucratic growth is slower (*ibid*). Still, as far as such a correlation exists, the former (size) may act as a proxy for the latter (bureaucracy) as well.

5.3 The interview as the main method of data collection

The main research method used was the interview. The research is based on *in-depth* interviews with management representatives (usually with personnel and/or production managers), shop stewards (if such existed) and *semi-structured* interviews of four employees at each plant during the time frame between 2004-2005. The companies were visited twice or thrice at one-year intervals, which made it possible to discern some trends over a time period of a few years. *Thematic interviews* at the sector level provided the grounds on which company level interviews were built.

The order of interviews followed a scheme according to which a representative of management was interviewed first, followed by a shop steward at plants where such existed and finally, four employees were chosen and interviewed. The mere fact that employees were interviewed is of great importance to this study. Case studies based on interviews with key figures, supplemented by available documents and attitudinal surveys, may prove biased as these accounts do not necessarily reveal how employee participation works in practice (Strauss 2006). When the case companies were first contacted, such a schedule was suggested. The interview method chosen for this study

³⁰ According to OECD criteria, workplaces with fewer than 100 employees are considered small.

follows King's (2004, 14) template of four steps for constructing and using qualitative research interviews:

1. Defining the research question;
2. Creating the interview guide;
3. Recruiting participants; and
4. Carrying out the interviews.

I had already determined the *research question* when I started to find appropriate case companies for my research. However, the focus of analysis had shifted since beginning the fieldwork in 2004. In addition to emphasising work organisation, the questions for management representatives also focused on social dialogue, where the term morphed into a more precise concept of employee relations throughout the study. The questions for employees covered various issues and there was no emphasis on any particular theme. Although the initial emphasis was on information and consultation, the eventual focus shifted towards conflict, job discretion and changes in work and labour conditions. The labour process thread strengthened during the time frame of the research, partially because the analysis revealed its importance and partially due to the relevance of the theory itself for exploring post-socialistic environments.

The *interview guide* lists topics that the interviewer attempts to cover during the interview and suggests additional material that may be used to follow-up the responses (King 2004, 15). The interviews with enterprise managers consisted of the following themes (see Appendix 2): personal background, company information, production policies and social dialogue. The framework of thematic interview also serves as the framework of analysis. Shop stewards were also asked questions regarding developments in the company, although questions on company trade union history, information and consultation as well as shop steward structure and activity were more emphasised (see appendix 3).

The interviews with employees were almost fully structured (see Appendix 1). The employees answered questions about life and work history, type of contract, pay, experiences in the company, job content, work conditions, incidence of conflicts, job discretion, training, latest changes in work safety and labour conditions, trade union and collective agreements, attitudes towards trade unions, issues of individual/collective bargaining, working hours, information and consultation, and absence from work. The questionnaire was a modified version of that used by Antila and Ylöstalo (2003) in their Working Life Barometer.³¹

I needed to modify the list of topics after my visit to the first case company, Foodstuff, whereupon I added questions concerning information,

³¹ Firm-specific questions as well as questions concerning confidentiality of wages, information and consultation, sick or maternity leaves and voluntary leaves were added to the questionnaire formerly used by Antila and Ylöstalo (2003). Antila and Ylöstalo's questionnaire is used as a basis for employees' questionnaire for the current research with the original authors' permission.

consultation and sick/voluntary/maternity leaves at the suggestion of my supervisor. Although I did not receive answers to these questions from the employees at Foodstuff, I collected the information during later meetings with the production manager when I visited the subsidiary a second time.

Personnel or production managers of respective firms carried out the *recruiting of participants*. They were requested to find employees proportionally representative of occupational, gender and age structures of the plant. In some cases (especially in the textile manufactories), I was able to choose suitable interviewees myself. The recruitment method proved problematic at Water Vehicle, where the personnel director chose only white-collar workers (see details in Chapter 5.6), so I decided to enter the shop floor myself, to find at least one 'genuine' interviewee.

Although the preliminary phases of the interview method (the interview questions, interview guide and recruiting participants) are strategically important, the most sensitive phase is *carrying out the interviews*. The interviews occurred in different places. Usually, a production manager or personnel manager from the company directed me to a free room to carry out the interviews. In some enterprises, however, the interview was conducted under more extraordinary circumstances, such as in a factory corridor, at a processing shop or even in the yard of the factory. In these cases, when no specific location was arranged for the interviews, the location itself or passers-by obviously interfered with the discussion between the researcher and the subject. On the other hand, conducting an interview outside the factory or in a corridor may have had its pros - it served as a neutral place in which it was possible to speak freely.

The duration of the interviews with enterprise management ranged from 45 minutes to 1.5 hours, while the interviews with shop stewards took, on average, 45 minutes. The interviews with employees took 20-40 minutes. Interviews with managers were usually carried out in English, although sometimes in Russian in Lithuania and in Estonian in Estonia. I almost always had a translator with me in Latvia and Lithuania, who was present during all interviews with the employees. Questions were asked either in Latvian or Lithuanian and the answers translated immediately into English. I am fluent in Estonian and therefore did not require the translator in Estonia. All interviews were tape-recorded. Tapes were transcribed shortly after visits to plants. The questionnaires were available in all necessary languages: English, Estonian, Latvian Lithuanian and Russian. I was fortunate that Antila and Ylöstalo (2003) had already translated most of the questions into the necessary languages and that I was authorised to use these translations. My local translators helped me to translate the remaining questions.

The interview method has its advantages and limitations. King (2004, 21) argues that interviewing allows the researcher to address focused questions about aspects of organisational life. Data collected by conducting interviews can be considered reliable - it indicates in itself the opinions and knowledge of the key persons concerning the subject matter. Mostly, interviewees are willing to

speak to an outsider whom they accept and who is interested in their work and helps them clarify their thoughts on a particular topic (*ibid*). When it comes to reliability, the interview cannot compete with the ethnographic approach. In the latter case, the researcher can gain an advantage of participatory observation and presence on the shop floor. Validity is obviously not of great concern in regards to the interview process. The interview as a research method has high requirements for the interviewer: the interviewer needs to be skilled and experienced enough to be able to operate in different environments, deal with an abundance of information during the interview and keep the interview under control within a limited time frame.

5.4 Approach to method and analysis

Roughly speaking, there are two approaches to interviews in qualitative research (Byrne 2004, 183; Rapley 2007, 16):

1. *Interview data as a resource*. The interview data is seen as more or less reflecting the interviewees' reality outside the interview, and
2. *Interview data as a topic*. The interview data is seen as more or less reflecting a reality jointly constructed by the interviewee and interviewer.

While the approach to interviews as a 'resource' is based on the assumption that the content of the interview is about the official topic, the 'topic' perspective views interview-talk as a joint production of accounts of experiences, emotions, identities and so forth. Further, the former is a *realist* approach, "where the social world is assumed to have an existence independent of language, accounts given by interviewees are assessed according to how accurately they reflect this real world" (Byrne 2004, 183). The latter, in turn, reflects an *idealist* position, which takes the interviewees account only one possible version of the social world. However, in practice, researchers often use interview material as a resource and as a topic (*ibid*):

Interviews are often analysed both for *what* interviewees say about their lives and experiences (the interview as *resource*) and for *how* the information is communicated and the accounts are told (the interview as *topic*).

Although I acknowledge that 'realist' accounts are prone to bias, I still advocate the idea that the interviewees act as informants. This does not exclude the assessment of accuracy of these accounts; which is discussed in Chapter 5.6, where the shortcomings of this research are listed. A researcher should strive to be as objective as possible, while simultaneously recognising personal preferences and attitudes (Eskola and Suoranta 1999, 17).

I have used the 'template' approach to the analysis, as I used an analysis guide or a 'codebook', which consisted of themes relevant to the research questions (King 1994, 26). Those included information, consultation, trade union, collective bargaining, organisation of work, work conditions, pay,

working time, attitudes, etc. I made a few modifications to the codebook during the analysis, since the template approach allows it. A characteristic of the template approach is that the pattern of emerging themes is to be interpreted qualitatively rather than statistically. The codebook was mainly built *a priori*, upon existing knowledge but it was completed *a posteriori*, drawing on initial analysis of the interview data. In regards to the interviews with employers and shop stewards, the interview themes made up the framework of the analysis (see Eskola and Suoranta 1999, 153). In other words, the codebook consisted of themes of discussion. Although the data was not quantitative in the first place, similar, recurring answers were emphasised in the findings but attention was also paid to exceptions and occurrences, which were not understood without going through the data once more or obtaining more information on the subject. The employee interviews were easier to analyse because their codebook was based on a structured form. In the analysis chapters, excerpts from interviews have been taken to illustrate certain important points. Although the examples taken from the interviews appear somewhat 'ad hoc', the analysis behind them has been a systematic one, based on the occurrences of themes slotted into the analytical codebook.

In practice, the answers to the questionnaires/thematic interviews were juxtaposed in data matrices (spreadsheet tables) where all answers to the questions were seen side by side. The tables consist of four categories based on investment motive: market-seeking production plants, efficiency-seeking textile manufacturing, efficiency-seeking engineering shops and resource-seeking quota-based agro-production. It was useful, from an analysis perspective, to find recurrent patterns of personnel management and employee relations within a category and between categories. A case study of one company alone might not have uncovered all patterns. During the interview at Insulator, an employee made a pertinent comment: "once you have interviewed four out of one hundred workers, you will be acquainted with only four percent of what is going on here." Yet, that four percent is important on a larger scale. Although obtaining "only a four percent" idea of the labour strategies and employee relations in any one company may not be significant, a more holistic picture will be obtained as data are compared between plants that are similarly investigated. Knowledge is gained through systematic data collection rather than ad hoc data (Hartley 1994, 218).

The data for the analysis of worker autonomy consists of the replies of employees in their questionnaire (see Appendix 1) concerning the worker's degree of influence in job tasks and tempo (Question 15). Furthermore, there was an explicit question in the questionnaire on how control of work results has increased at the respondent's workplace. These questions, combined with the accounts of intensity at work (Question 17), provided a relatively coherent picture of the level of managerial control along the DC - RA axis. Moreover, the actual balance of power could be investigated on the basis of the shop stewards' reports on collective bargaining and all respondents' accounts of wage determination and wage bargaining.

I also collected employee answers to the questions concerning work intensity in its different aspects. Although employees were asked to estimate changes in intensity-related variables (intensity of work tempo, physical stress, mental stress) within a time span of twelve months, the respondents expressed that the time frame was not the most essential aspect but rather the question should be considered in terms of overall change, without considering time. One can argue that if a person has experienced a 'considerable increase' in work intensity during the last twelve months, the worker's discretion would not change in the direction of RA but rather in the direction of DC. It should be noted that employees took these questions very seriously, which is a strong indicator of the relevance of the issue.

The second round of visits to the case companies in 2006 generated information on job autonomy, as managers were questioned more thoroughly about the organisation of work at their factories. More detailed accounts were obtained on worker discretion concerning the allocation of jobs and job rotation. Shop-floor control over the allocation of workers to jobs constitutes a central means of resisting managerial domination, since under these circumstances foremen cannot reserve the best jobs for their favourites (Edwards and Scullion 1982, 209). Allocation may occur in two ways: either workers are allotted to jobs (as in an assembly shop where there are distinct work stations to which workers are placed) or jobs to workers (as in machine shops where batches of work are allocated to workers).

5.5 Analysis of collective agreements

Collective bargaining agreements were analysed, first by using an analytical tool provided by Begin and Beal (1989, 327). This content analysis tool was intended for the heterogeneous labour market in the United States. It consisted of the functions (see Table 5.2), which were supposed to be incorporated in a collective agreement. I relied on this framework because it revealed the essential elements of a collective bargaining agreement, as Begin and Beal (*ibid*) clarify: "despite the dissimilarity in organisation of topics and presentation of provisions that is found in different labour agreements, all are reducible to certain common denominators."

TABLE 5.2 Functions of the labour agreement (according to Begin and Beal 1989)

Function	Category	Scope
I. Union security and management rights	a. The bargaining unit	Who speaks for whom
	b. Form of recognition	With what authority
	c. Duration and renewal	For how long
	d. Management rights	Except in what conditions
II The wage and effort	a. Pay for time worked	Day rates and base rates; job evaluation
	b. The effort bargain	Standards
	c. Premium pay	Hours: duration
	d. Pay for time not worked	Fixed labour costs Variable labour costs
	e. Contingent benefits	
III Individual security	a. Job rights	Relative claim to available work; seniority
	b. Due process	Absolute claim to fair treatment; grievance procedures
IV Worker participation	a. Right to participation	Types of procedures; types of issues; levels of authority; relationship to collective bargaining
V Administration	a. Internal	On-the-job representation; shop stewards
	b. External	Arbitration

In the analysis of collective agreements, Begin and Beal (1989, 334-340) stress those issues that belong to the sphere of the five functions, issues that are missing completely in agreements, or those statements that are questionable. Although the four collective agreements in the investigated firms are not regarded as plentiful and generous, we can obtain an idea of what should be included in these agreements by means of the functions presented by Begin and Beal.

The collective agreements analysed by myself and my colleague (Laine and Sippola 2003) in Estonian metalworking varied significantly and they were lacking many of the functions of Begin and Beal's (1989, 327) functions of the labour agreement. We concluded that the local trade unions did not dare or were not capable of demanding some CBA issues. In two of the three subsidiary companies we analysed, the CBA was to be negotiated for the first time and the unions did not want to make big claims on all work conditions. We noticed that the employers were reluctant to negotiate even the restricted version of the CBA's proposed by the employees. The employers were apparently hesitant to begin bargaining over the most important CBA functions: wage and effort.

A secondary analysis was made against the backdrop of each corresponding country's legislation. This approach uncovered what clauses were comprised of only repetitive legislature and which issues were independently concluded between trade union and management.

5.6 Shortcomings

The majority of the gaps in the data were explained to a satisfactory degree by the various accounts given by other sources. Most of the gaps concerned the employee interviews. The personnel manager at Water Vehicle brought me interviewees that were not blue-collar workers but rather office staff. I needed to assure him that I was more interested in the findings of the shops than those from the offices and eventually I managed to obtain one interviewee 'from the shop floor'. The data gap was filled by the accounts given by the shop steward (I interviewed him twice) and the health and safety representative. At Soft Textile I encountered very conventional replies to my questions, which in my view was due to the company's 'one family' culture and suspicions towards me as an 'outsider'. I attempted to fill this gap with extra questions for the middle management and with on-site observations. At Prefab, I was directed to a visible and noisy location (where many workers were constantly passing by) perhaps intentionally and I noticed that the respondents were uneasy during the interview. I recognise that not all answers to the questions were fully reliable in this firm, although I believe that I gained a sufficient understanding on what was happening on the shop floor at the plant based of the interview at the union federation office.

The conclusions made on the level and scope of *information and consultation* were largely based on the accounts of management representatives and of union representatives. Employees were also asked about information and consultation. The questions concerning this issue were not clearly formulated and there were controversial reports within single firms on information and consultation. One reason for the confusion may have been that the scope of information and consultation was not sufficiently understood by the workers before they answered the questions. Some comments given by respondents indicated that information and consultation were often comprehended as forms of two-way individual communication between an employee and an employer. Many workers had a consultation with a direct superior in mind when replying to these questions. The fact that the scope of the concepts of information and consultation was not clear to workers is one finding of this research. It is evident that the workers in these Nordic companies – with the exception of Insulator – were quite unfamiliar with the contemporary idea of employee participation promoted by the EU, let alone the idea of co-determination in the Nordic countries.

A shortcoming related to the questionnaire for workers (Appendix 1) was that explicit questions about the network of social relations were missing. In the course of this research, the need for the study of close relationships – which in the aggregate comprise of the contacts consisting of 'the inner circle' – became evident. It would have been ideal to more closely examine whom the workers are in contact with, in who they trust in, what links they have with superiors, co-workers and so on. This question was negatively addressed in the

employees' questionnaire. Workers were asked whether conflicts occur between themselves and superiors, between groups of workers, clients and co-workers.

In the analysis of labour process control, the dimension of managerial control along the DC/RA axis was problematic since no exact question was posed for either managers or employees about the occurrence of RA. The lack of such a question was due to the fact that the preliminary goal of this research was to assess the impact of Nordic FDI on employee relations, where the questions on consultation, information, workplace bargaining, trade unionism and the sense of influence on company matters were given priority in the questionnaire. The control aspect became a central theme in a latter phase, when the first round of analysis had been completed. The issue of control became so evident "between the lines" that it was incorporated into the analysis. Since by definition RA is an antipode of DC and clear signs of DC surfaced in the answers, the mere lack of RA practices – apart from adjustments made in this respect during the second round of visits to the case companies in 2006 – allowed me to make conclusions on this dimension of control.

Another failure with regard to the analysis of direct control/responsible autonomy was that only one interviewed rank-and-file worker is not capable of representing the whole factory and providing exhaustive accounts of the shop-floor situation at different shops. I realised this shortcoming at a late phase, when all the fieldwork had already been completed. Although I was able to draw a comprehensive picture of what the collective power at Water Vehicle was like on the basis of the interviews with the personnel manager and senior steward, I was unable to make conclusions about the degree of DC/RA at the plant. Therefore, in the analysis of work autonomy and in the final conclusion, this aspect of control over the labour process is missing for Water Vehicle.

Gaps in the data concerning Water Vehicle may prove to be the Achilles' heel of my study. The fact that I was not able to conduct interviews with more than one blue-collar worker at Water Vehicle must be acknowledged as a failure. In this sense, the *saturation point* – the point where I felt that any significant new knowledge could not be gained by collecting more data (see Hartley 1994, 219) – was not even close to being reached. But given that the plant employed 700 workers it is questionable that the interviews of four blue-collar workers could have offered a comprehensive picture of what was occurring on the shop floor. A reliable analysis of employee relations and control at Water Vehicle would perhaps have required ten to a dozen interviews with employees working at different shops. Conversely, one must recognise that the amount of interviewed employees (four interviews) at small and medium-sized companies having 50-250 employees was sufficient. Although I let the personnel/production manager choose most of the workers him-/herself, the profiles of the selected interviewees matched well with the general labour profiles of corresponding factories in terms of occupation, nationality, sex and age. In most cases I was also able to follow the selection process and encountered that the managers strived for random selection.

5.7 Examination of employee relations

I use the term 'employee relations' instead of the more traditional term *industrial relations* for a similar reason that Blyton and Turnbull (1998, 28) do: the former term captures all employment relationships, not only those involving unionised male manual workers in manufacturing. Although this research was conducted in the industrial sector, where it would be logical to speak of 'industrial' relations, it is more adequate to use the term employment relations because of the wider scope of the concept. Also, as Blyton and Turnbull point out, there is a change in the underlying principles, where industrial relations are giving way to employee relations as a concept.

Employee relations embrace *agency* relationships, that is to say, the interests, choices and actions of the different parties (Blyton and Turnbull 1998, 34). The *actors* in employee relations typically include unions, managements and the state; I have considered these 'actors' earlier in Chapters 2.3 and 3.6. In this chapter, I will operationalise the *action* in employee relations in terms of employee participation and workplace bargaining. The former has increased its importance at the expense of the latter due to the alteration of the emphasis in employee relations from collective bargaining to different participatory forms (Blyton and Turnbull 1998, 222). While Knudsen (1995, 24) does not regard collective agreement as a form of employee participation, Marchington and Parker (1990, 235) argue that in its broadest sense, employee participation encompasses collective bargaining as well. Still, I have kept workplace bargaining as separate from information and consultation practices, since the former has to do with a most articulate, institutional form of employee relations and the latter refers to action that may entail a strong impact on employee relations by the employer.

5.7.1 Employee participation

The term 'employee participation' embraces information and consultation as well as participation in workplace decision-making, although the latter form of activity is not characteristic of participatory systems in the Baltic workplace. The same is true with the practice of co-determination, which is characteristic of Finnish and Swedish industrial relations models. This co-operative practice is virtually absent at Baltic workplaces. In cases where a Nordic industrialist provides Baltic workers with powers of co-determination, it could be regarded as an introduction of a part of the 'Nordic model' to the Baltic subsidiary. Analytical distinctions were made between the following:

1. The forms of participation: indirect and direct,
2. The type of influence: information and consultation, and
3. The level of influence.

Roughly speaking, the distinction between indirect and direct forms of participation is relevant as the Nordic model of employee relations relies heavily on indirect – or collective – forms (as workplace bargaining does). The analysis of information and consultation makes sense, as these concepts are important from the EU perspective. In fact, all accession countries have had to ratify the directive on information and consultation in their legislation. The third distinction takes into account the level of influence as seen from the Nordic point of view and thus goes beyond the superficial concepts of information and consultation towards Nordic-type co-decision or co-determination.

5.7.1.1 Forms of participation: indirect and direct

Indirect participation usually encompasses all forms of the employees' collective voice, normally in the form of trade unions, works councils or employees' representative committees (Knudsen 1995, 6; Gunnigle 1999; Poutsma et al. 2003, 49). Forms of indirect participation include: (a) shop-steward meetings with management; the shop stewards being elected by and representing the members of a specific trade union at the workplace; (b) works councils; (c) joint committees which are mixed bodies consisting of management as well as employee representatives; and possibly (d) the representation of employees on the company board or a supervisory board alongside shareholder representatives (Knudsen 1995, 6). Since this research embraces a comparison between unionised and non-union enterprises, the main emphasis here is on shop steward representation. Also, works councils are briefly considered for the reason that one non-union firm among the case studies has such a body. It is questionable however, whether this body represents indirect or direct participation in the Baltic (Latvian or Lithuanian) context. The same question arises in Estonia, where a non-union trustee can be elected in a general meeting of workers, although this form of indirect participation does not occur in the case studies.

Direct participation is a focus of this research due to the assumption that in the absence of collective representation arrangements, there should be other avenues of expression for employee voice. There are various definitions of direct participation and here I have chosen two different ones: a Danish and an Irish definition. Knudsen's (1995, 5) definition of direct participation is as follows: "direct participation means that the individual employee takes over or is drawn into certain managerial decisions which have traditionally been taken by management alone." This can take different forms, such as the delegation of a greater degree of discretion over the immediate work tasks; the creation of autonomous groups or quality circles; or meetings at a workgroup, workshop or at a department level. Gunnigle (1999) states that direct participation is "normally introduced at management's behest, often as part of a change initiative whereby management transfers responsibility to employees for a limited range of job-related decisions, such as working methods and task allocation."

Direct participation is largely about the re-discovery of the “human factor” in organisational success, involving such features as “open management,” intensified communication and the creation of a new climate of trust in the organisation (Frohlich and Pekruhl 1996, 4). These outcomes are fostered using suggestions schemes, workforce attitudinal surveys, workforce appraisals and development schemes (*ibid*). According to Poutsma et al. (2003), firms that adopt direct participation policies are innovative and have highly qualified workers. Out of ten EU countries compared in the EPOC survey, direct participation was significantly high in Sweden and the Netherlands,³² both of which are characterised as coordinate market economies (CMEs).

Employee involvement (EI) schemes that are at the core of direct participation, have been traditionally used in conjunction with human resource practices in non-union firms in US and Irish workplaces (Milkman 1998, 30; Gunnigle 1999). However lately, forms of EI have been commonly used in unionised establishments, in which the introduction of participation schemes has resulted in ‘concession bargaining’ on the part of unions (Milkman 1998) and in which employers have shown a clear preference for involvement over partnership with unions (Roche and Geary 2000). Australian experiences of EI embrace three waves: first, in the 1970s, when managements introduced EI schemes in the face of labour shortages; the second wave of EI in the 1980s was initiated by the unions as a response to deteriorating economic conditions; and the third wave was initiated by employers in the mid-1990s to improve organisational performance (Brown et al. 2007). In the UK, the proportion of direct involvement mechanisms have increased from 11 to 30 percent and sole union voice arrangements fallen from 24 to 9 percent in workplaces between 1984 and 1998 (Bryson 2004).³³ In four-fifths of workplaces where union structures existed, direct voice mechanisms were also employed.

Direct participation is based upon *direct communication*. Croucher et al. (2006, 282) found that firms involving their HR managers in strategy development are more prone to adopt direct communication with employees than firms that do not; a finding that holds true in both Denmark and Britain. This finding thus undermines the institutional theories that advocate that unions and state institutions (both are strong in Denmark) set constraints for HRM practices. The study also showed a strong correlation between the occurrence of direct communication and unionisation. This suggests that workplace unionism somehow stimulates direct communication. This may reflect either the workers greater confidence in the direct information channel in the presence of an indirect representation mechanism or management’s greater pursuit to intensify their communication efforts when confronting employee scepticism regarding employer-disseminated information.

³² Employee Direct Participation in Organisational Change survey commissioned by the European Foundation for the Improvement of Living and Working Conditions (European Foundation 1997).

³³ Bryson’s (2004) conclusions are based on the 1984, 1990 and 1998 Workplace Industrial Relations Surveys.

There is some evidence to suggest a management strategy which aims to prevent the subsidiary's and the mother company's workers from communicating with each other. In a Nordic-Baltic information, consultation and participation project in construction and manufacturing industries,³⁴ cases were unearthed where Nordic shop stewards were forbidden access to negotiations held with workers of Baltic subsidiaries. Also, Nordic union officials were unaware whether there were unionised workers and shop stewards in a Baltic subsidiary or not. Managements have also sought to restrict communication between workers by official means, that is, through clauses included in internal rules of work procedure.

5.7.1.2 The type of influence: information and consultation

The 2002/14/EC directive on **information** and **consultation** is an important milestone for the EU conception of employee voice. Definitions for information and consultation are embedded in this directive:

Information: "...means transmission by the employer to the employee representatives of data in order to enable them to acquaint themselves with the subject matter and to examine it"

Consultation: "...means the exchange of views and establishment of dialogue between the employee representatives and the employer."

Consultation is a process that takes employee voice into consideration much better than a mere information dissemination. Consultation can be considered a more powerful means of employee voice since it gives employee representatives an opportunity to come forward with criticisms and provide the employer with alternative ideas on workplace issues and it also may develop into collective negotiations (Knudsen 1995, 9).

According to the 2002/14/EC directive, information and consultation should concern 1) the situation, structure and probable development of employment, plus the anticipatory measures taken when there is threat to employment, 2) decisions likely to lead to substantial changes in work organisation or, 3) decisions likely to lead to changes in contractual relations. Also, information should cover recent and probable development of the company's activities and economic situation.

The implementation of the 2002/14/EC directive does not imply a drastic change in traditional workplace practices in Nordic countries. To use Finland as an example, the 1991 act on cooperation in corporate units provided personnel groups with information on company matters. This law concerned the undertakings of more than 500 workers, where units comprised of more than 30

³⁴ "Promoting Information, Consultation and Participation in the Estonian, Latvian and Lithuanian Industry and Construction Sectors". A EU project initiated by the Nordic trade union confederation NM (metalworking industry), NIF (chemical, paper and textile industries, nowadays merged with NM), NFBWW (construction and woodworking) and NU (food industry), where I acted as an external expert.

employees. The EU directive on information and consultation reduces these limits to undertakings with more than 50 workers and units with at least 20 workers, whereas the timing, the manner and the means of providing information and consulting employees can be determined nationally. (Kauppinen 2005, 243-245.)

5.7.1.3 The level of influence

The **level of influence** must be taken into consideration when information, consultation and collective bargaining are concerned. To understand at what level employees are allowed to participate in managerial decision-making, it is helpful to rely on Knudsen's (1995, 11) typology of management decisions (issues are ranked according to the importance of subjects within a company):

1. *Strategic decisions.* The overall decisions determining the company's goals, its structure and main types of activities, major product-related investment decisions, mergers, take-overs, and partial or complete closures.
2. *Tactical decisions.* The overall decisions defining the means to realise the goals of the company, central decisions – at company or workplace level – concerning technology and work organisation, principles guiding job design, personnel management, operation hours, payment systems, health and safety and so forth.
3. *Operational decisions.* The more specific decisions made, usually at department or workshop level, as to how work shall be carried out within the given technical-organisational framework: the concrete deployment of labour defined through such measures as the definition of tasks, the assigning of workers to the specified tasks, the application of payment systems, the monitoring of the labour process, the definition of shift-work schedules and the allocation of working hours for individual employees, the fixation of holiday periods, the application of health and safety prescriptions and so on.
4. *Welfare decisions.* Decisions concerning company-specific welfare arrangements, such as canteen facilities, housing facilities, sports and other recreational activities, scholarships and other forms of financial support separate from the ordinary remuneration.

As was previously discussed, Finnish and Swedish industrial relations systems provide workers with great possibilities of co-determination. It can be argued that the Baltic industrial relations model implies consultation at certain levels – on welfare issues or tactical or operational levels – but not necessarily on strategic decisions. A working life barometer by a research institution *Saar Poll* examined the extent to which employees were included in decisions made concerning their work. Most of the consultation occurred on an operational level when deciding upon schedules for holidays: a fifth of interviewed workers felt that decisions regarding this issue would not be made without their approval and 40 percent of respondents answered that their opinion was taken into account when decisions regarding holidays were made (*Working Life Barometer 2005*, 43). To some extent, Estonian enterprises consult their workers on a tactical level, on issues such as changes in work organisation or workplace safety. There were few enterprises that consulted employees in processes concerning economical activities or strategy planning and as many as one quarter of the respondents expressed that they were not informed about such issues (*ibid*).

5.7.2 Workplace bargaining

Workplace bargaining has two distinctive patterns: *collective bargaining* and *individual bargaining*. The former alternative is exemplified by Swedish cases, the latter by Japanese examples (Leborgne and Lipietz 1988). In collective bargaining, the union pursues to bind its members to achieving “the expected rate of growth in productivity and quality standards, in exchange for the right to control working conditions, redundancies, and shares in productivity gains,” while individual bargaining occurs between the involved worker and management in sharing out improvements through bonus payments, career advantages and so forth (*ibid*).

Collective bargaining is the most widely used institutionalised form of collective negotiations. According to the International Labour Organisation (ILO) definition, collective bargaining encompasses the activity or process leading up to the conclusion of a collective agreement, while collective agreements are (Gernigon et al. 2000, 35):

...all agreements in writing regarding working conditions and terms of employment concluded between an employer, a group of employers or one or more employers' organisations, on the one hand and one or more representative workers' organisations, or in the absence of such organisations, the representatives of the workers duly elected and authorised by them in accordance with national laws and regulations, on the other.³⁵

From the labour process perspective, aside from *displacing conflict* between different parties of production from the shop floor, collective bargaining also *reconstitutes conflict* in a framework of negotiation (Burawoy 1979, 114-115). Thus basically, it generates a common interest between union and company. However, through this means, the labour collective only has marginal influence, while the relations of ownership and control are objects of consent (*ibid*, 115).

Individual bargaining is successful when the workforce is indispensable and the relationships between employees and employer are good. If the situation becomes worse, employees have an effect only through collective bargaining. Individual resistance forms offer only “a dampened threat” to capital (Julkunen 1987, 185). It sets some limits to the action of management, but it also tends to reproduce structures of oppression and use of labour.

5.8 Setting up a framework for subsidiary analysis

A focus on foreign direct investment allows us to examine the labour process and control aspects within a company. In this study, the principal firm opted to take control of the production process instead of outsourcing it abroad. In the

³⁵ Gernigon, Otero and Guido refer here to ILO 1996: “International Labour Conventions and Recommendations, Vol. I, 1919-1951”.

event of FDI, the headquarters could exert control over the labour process directly instead of cultivating those forms of control exerted by outsourcing companies, such as output control (see Child 1984) or financial control. As Harzing (2004, 16) argues, foreign direct investments are “investments made in foreign countries with the explicit goal of maintaining control over the investment.”

Adopted strategies in turn are affected by the nature of product and pressures of product market. In other words, the changes in the product market condition the parent company’s investment strategy, which has consequences for the investment motive. However, there is the danger of assuming that the product market mainly determines managerial activity, while the spectre of market pressures could be used to legitimise managerial actions to employees. This poses one of the shortcomings of the research on employee relations in its product market context (Marchington and Parker 1990, 100-101). While attempting to avoid this pitfall, this study presumes that both the fluctuations in product market and characteristics of the labour market influence decisions made in the HQs regarding investment and has consequences for subsidiary work organisation and workplace relations, in other words – the labour process. Taking all these factors into account, the grouping of the case study companies was made according to the product/industry type and investment motive, which thus took both market pressures and agency into account.

Line production (or assembly line production) assumes certain qualities on the part of the labour force. This is a distinct production type with a varying need for qualified workers. The tasks of “line operator” and “CNC (computer numeric control) operator” require different skill levels and both of these positions may exist in the same company. One company, Medicament, sets itself apart within this group as a bit problematic: it is both a market-seeking and a resource-seeking company and it uses both production (assembly) line labour and craftwork. However, Medicament’s orientation in the Eastern market makes it better suited to the market-seeking group and the work is more typically organised around a production line.

Perhaps the most distinct group in production relies entirely on **handwork**. This production policy is connected closely with hiring low-skilled workers who are offered relatively low wages. In this group, efficiency is sought by cost-efficiency provided by a cheap labour force. The nature of work is related to a sexual division of labour. Female labour is typical of the labour process in these handwork-based factories. All the production workers are women and only a few men are employed in a handful of auxiliary jobs. The exploitation of female labour can be considered against the background of the post-Fordist division of labour, where labour intensive parts of production are relocated and efficiency-oriented investment rules. These factories are reproducing the Soviet-era practice of segmentation on a gender basis. The socialist labour process was clearly *gendered*, where males and females held different positions. Women were employed mainly in labour-intensive processes such as textile, garment and assembly line production in light

engineering, while men worked mostly in heavy industry (Ashwin 1996, 23; Jensen 2003, 18).

The third group consists of metalworking **engineering shops**. It is assumed that the workforce in these types of plants are more skilled and therefore have more power in relation to the labour process, although the internal labour market tends to emerge easily in these factories. In other words, craftsmanship is needed in engineering shops. The workers in these companies are scarce (this concerns the majority of the employees), as the employer faces challenges in recruiting skilled workers. Employees have often plenty of possibilities in the labour market as they often have an abundance of jobs to choose from. They are more individually oriented and salary negotiations are often carried out personally between individual worker and employer.

The fourth group is discernible from the data. It comprises companies that organise the production process on a different basis during the **season** (in the autumn) and off-season. All permanent employees have two jobs: one for the intense production process lasting three to four months and another for the maintenance and repair period comprising the remainder of the year. These companies also use temporary workers for the production period. The companies in this group place themselves in the food processing chain, quotas of which are strongly regulated by the European Union. The quotas provide an extra 'asset' for these subsidiaries, which is why especially resource-seeking investors are presumably interested in them besides material assets and human resources. I have placed my case study plants in the following matrix in which organisation of production process is related to investment motive (Table 5.3).

TABLE 5.3 Grouping of case firms according to investment motive and nature of work organisation

	Market-seeking investment	Efficiency seeking investment		Resource-seeking investment
		First generation	Second generation	
Production line work	Insulator ■ ■ B Medicament ■ B Natural Drink B Prefab ■ G			
Manual work		Fabrics ■ ■ G Soft Textile J Tailor ■ A		
Craft / batch production			Profile Maker G ■ ■ Steel Works J Water Vehicle ■ ■ A	
Seasonally specified work				Foodstuff B Ingredient ■ ■ A

Notes:

Investment type: G = greenfield, B = brownfield, A = acquisition, J = joint venture

Collective representation: ■ trade union, ■ has been unionised once, ■ works council

Collective bargaining: ■ CBA concluded, ■ CBA negotiations

Since the investment motive is largely conditioned by pressures from the labour and product markets – these 'variables' eventually correspond with one another

as theory implies. It is not surprising that this link is observed in the case study companies.

5.9 Summary

The research setting was based upon a case study approach. Twelve case study companies were selected from a database consisting of over 400 Nordic firms operating in the Baltic manufacturing industry. The most important criteria for selection was the following: 1) the most significant Nordic investors – Denmark, Finland, Norway and Sweden – were represented in all three Baltic countries, 2) half of the selected firms within a country had a trade union and 3) the selected firms within a country (in Estonia, Latvia and Lithuania, respectively) had to operate in different (manufacturing) sub-sectors.

The main method was the interview. With four workers per subsidiary, structured interviews took place. With employer representatives and shop stewards, semi-structured or thematic interviews were conducted. Participatory observation was not used as a research method here, although some scholars in the labour process school (e.g. Burawoy 1979; Edwards and Scullion 1982; Bélanger 1994) draw heavily upon the ethnographic research tradition. Participatory observation is indeed valuable to the examination of the labour process. However, limited resources and time constraints did not allow for such a large-scale research design.

In the analysis, a template approach was put into practice, where a 'codebook' consisting of themes of interviews was used. The codebook was mainly built *a priori*, upon existing knowledge, but it was completed *a posteriori*, drawing on initial analysis of the interviews. In regards to the interviews with the employers and shop stewards, the interview themes made up the framework of the analysis. Although the data was not quantitative in the first place, similar recurring answers were emphasised in the findings. Attention was also given to exceptions and occurrences, which were not understood without going through the data more than once to obtain more information on the subject.

The study of employee relations covers the actors (employers associations, trade unions and other employee representation bodies) as well as the processes, such as employee participation and workplace bargaining. A distinction is made whether bargaining is carried out individually or collectively. The former seems to be the trend in Baltic workplaces, the latter in Nordic ones. Baltic workers are apparently involved in wage bargaining that is increasing mutual competition on the shop floor. In the case of Nordic workers, such competition is not necessary, since wage tariffs negotiated by union federations ensure equal treatment. The use of individual bargaining eventually leads to the emergence of an internal labour market, which in turn enhances managerial control.

6 THE IMPACT OF PRODUCT MARKET AND LABOUR MARKET ON THE ROLE OF SUBSIDIARY

In this chapter, the combination of such factors as product market, labour market and Nordic investment and their influence on Baltic subsidiaries will be examined. The product and labour markets are equally considered in the analysis. Whether the subsidiary is meant to be a mere production site (without any design/engineering activities), whether it serves as a factory with a skilled labour force constructing tailor-made end products or whether it has more advanced R&D facilities in possession will be considered. Furthermore, the issue concerning any potential for upgrading the subsidiary role will be scrutinised. Work design at the factories and the formation of an external labour market are also considered as a prelude to the proper analysis of employee relations.

6.1 Market-seeking production plants

6.1.1 Investment motive and nature of production

The investment motive of the firms within this category is predominantly connected to local markets. Insulator and Prefab are clearly units that seek to meet the demands of local construction markets and Natural Drink's motive is to acquire domination in the national market of particular food products. Medicament supplies (packages) chemical products mainly to the Baltic market but also for republics of the former Soviet Union. Every "market seeker" serves as a production unit for a corporation with some thousands of employees in several countries and therefore takes on the role of *autarkic subsidiary* (see

Tavares and Young 2004, 267).³⁶ In other words, market-seeking companies are typical examples of horizontal companies, having various production sites in different geographic locations. It is worth mentioning that all the mother companies are among the market leaders in their home or the EU market.

In terms of market, product and value-adding scope (the terms by White and Poynter 1984), it is clear that these units have been established mainly with the intent to conquer the Baltic markets. In regards to product scope, Insulator's policy is worth noting. Their so-called 'transfer of best practices' group policy influenced headquarters to decide that Insulator's site would be the most profitable location for a new product line, which was installed in 2005. In regards to the value-adding scope, it should be noted that Medicament's headquarters have adopted a strategy of buying out licences and not conducting any of their own R&D. The changes in added value come from business development. Natural Drink has some R&D activity in this Baltic country, although it is not located on the production site but at a separate unit in the country capital. The firm characteristics are elaborated in Table 6.1.

TABLE 6.1 Corporation, investment and firm characteristics of the researched companies (data dates from 2004-2006)

	Insulator	Medicament	Natural Drink	Prefab
Sector	construction material	pharmaceutical products	food	construction material
Firm structure	horizontal	horizontal	horizontal	horizontal
Employees	1,850	3,000	4,400	8,000
Operates in x countries	4	15	8	11
Market orientation	local market and FSU market	local and FSU	local market	local market
Entry mode	brownfield	brownfield	brownfield	greenfield
Established in the Baltic States	1995	1991	1995	2004
Turnover 2004 m€	> 20	11-12	20	> 2 (start year)
Size of the site	240 employees	60 employees	150 employees	230 employees
Management	quite independent unit; foreign MD	quite independent unit; local chair	Nordic plant director	local managing director
Sales	sales scattered around the country	sales scattered around the country	based in the country capital	at Prefab (one manager and 3 salespersons)
Research and development	at the headquarters (Nordic country)	at the HQs; a strategy of acquiring licences	R&D dept. (director and 2 local people) in the capital	based in company home country
Trade union	yes	once	no	yes
Employee representation	convener + EWC	none	none	shop steward

³⁶ In the case of Medicament, one can make a case that this enterprise would be a *miniature replica*, since it manufactures single products or a variety of products for the parent company and also for the market in the host country.

There are three Finnish (although one is originally Swedish) and one Norwegian subsidiary in this category. One of the subsidiaries is established on a greenfield site, whereas three of them are located on brownfield sites (the real estate acquired but equipped totally anew; workforce maybe the same as in the older factory or new workers may have been hired). All the 'brownfield' projects have started as joint ventures in the 1990s and total ownership taken into effect within 2-5 years.

Insulator is an operation whose premises were built in 1973. The previous factory was in operation during the Soviet time in the same branch as Insulator. A Nordic company acquired the plant in 1995. At first, it was formed as a joint venture with a local company but the Nordic investor became the sole owner in 1997. The investor had already established a sales office in the country in 1993. Production did not begin immediately in 1995, as old equipment had to be removed and new production lines needed to be installed. In the beginning, there were only five employees working on the site but within a short period of time, the number of workers reached 140. Some reasons behind the investment included a desire to enter the local market and the availability of a pre-existing site for production. The net sales for the year 2004 were more than 20 million Euro. The mother company has no other production plants in the Baltic States, though one plant exists in Poland. Main markets for Insulator's products include the Baltic States, Ukraine and Belarus.

Medicament is a company that belongs to the chemical sector. It is located quite a distance from the country's capital, unlike most of the companies in the branch. The plant was built in 1989 on the production site of another company but the breakdown of the Soviet Union foiled the plans of the company. With the initiative of local people, the empty factory was not abandoned but instead furnished and equipped with infrastructure. Thanks to the activity of the local staff who sought to find a foreign investor, a Nordic company became interested in the factory and acquired a part of the shares of Medicament in 1991. Within three years of the initial investment, the Nordic owner purchased 100 percent of the shares. However, after some changes in control over the Nordic mother company's shares, an American investment group took over the mother company in 2002. As a result, Medicament has also been under American ownership since 2002. This information was not known prior to the interviews at this subsidiary, until the spring of 2005. Given the relatively long period (1991-2002) of Nordic possession, Medicament can still be regarded as an example of Nordic contribution to the Baltic States. In 2004, the turnover of Medicament was 11.6 million Euro, which consisted of sales to the Baltic States. When they entered the Russian market, Medicament was in charge of the sales in Russia until the establishment of their own sales office in the country. The mother company has no other production sites in the CEE countries.

Natural Drink was established at its current site in 1995, although the Nordic mother company had operation in this Baltic country since 1992. The plant is located near a regional centre in the country. The Nordic owner had a 50 percent stake in the beginning but since 2001, the subsidiary company has

been fully owned by the foreign investor. The investment was a happy coincidence: the local staff had contacts with the Nordic investor, which in turn was seeking an appropriate place for a plant. Local farmers would have founded the plant even without a foreign investor. Had this occurred, the building and the equipment would not have been as modern as what the Nordic investor installed. This site also had the advantage of having a sufficiently qualified workforce and lower wage level than in the country's capital. A large processing plant producing similar products was closing and Natural Drink was able to acquire workers from it. The turnover for the year 2004 was 20 million Euro. Besides Natural Drink, the company has another production plant in the same country and another one in a different Baltic country. Natural Drink's sales are almost completely comprised from the local market.

Prefab is a brand new plant that was founded in April 2004. The reason behind the investment was a push from the market. The company group already had production units in two other Baltic countries and the expanding market in this country created a demand for another plant. Most of its production plants are still based in Nordic countries, the Netherlands and Germany but contribution to the CEE countries is increasing. In CEE countries, the company also has production sites in the Czech Republic, Poland and Russia. Prefab's turnover for the year 2004 was 2.1 million Euro. This figure is expected to rise remarkably in 2005, for the production process was not operating in full swing before the end of the year 2004.

6.1.2 Work design and labour market

In regards to work design, all plants in this category have work organised predominantly around an assembly line. The labour process of the market-seeking investments presented here is quite similar to that of the consumer electronic plants exemplified by Danford (1998, 45) - although the latter represents an industry not presented in my case study - where operators sat at discrete positions along a conventional production line carrying out a small number of manual operations. The responses of workers at production line plants, indeed, indicate that the number of those who feel that they can "fully" influence their work tempo is lower than in other plant categories. This suggests that they are more controlled by the machine and bound to their workplace than workers in textile factories, engineering shops and factories where varying seasonal tasks are typical. Also, the number of workers who felt that they had full or relatively good influence over their work tasks was smaller than in the other categories. Prefab's organisation of work is different from the other production line plants: the work is organised around a "table" rather than around the line (see Appendix 4, Figure 4). The management did not provide an exact production scheme but the production system became clear in conversation. The system allows more freedom for workers to go around and communicate, as well as help or substitute for each other within a work group.

Pay makes up a central element in the organisation of work, which is clearly seen at production line plants. Particular to this industry is hourly wage, albeit it is individualised and varies greatly between different operations. Hourly wages are common practice at Insulator and Natural Drink, whereas there is a monthly salary at Medicament. Natural Drink has also introduced bonuses and according to a middle manager, they have gained popularity among the workers. The pay system of Prefab is different: there are hourly wages during the probation period, while all permanent workers are paid by piece per unit produced. It is evident that market orientation has contributed to better salaries than efficiency seeking. Although the salaries of the interviewed workers varied from 280 to 760 Euro, the mean salary was still as high as 490 Euro, among those who reported their salaries. There was one worker out of every four interviewed at each plant not willing to disclose their salary to the researcher.

A distinctive feature in this firm category was the propensity to human resource management. It is apparent that some of the market-seeking companies have introduced company-wide practices to their Baltic subsidiaries. Workers at Insulator have been involved in the design of work organisation, at least to some degree. In the human resource manager meetings of five different production units, Insulator's personnel manager is involved in harmonising the processes throughout the whole company "family." The limitation of this harmonising of personnel policy is, however, that all procedures do not suit every country. As a result, the mentalities of the countries in which subsidiaries are located are analysed.

Fringe benefits offered by the companies also belong to the sphere of human resource management. Workers at Insulator have been involved in an insurance plan contributing commitment to the workplace. Rank-and-file workers deposit about 15 Euro per month, whereas specialists and white-collar workers deposit 45 Euro into an insurance fund. The money collected in the fund is returned after 10 years. Evidently, this encourages workers to remain in their jobs for at least ten years. Natural Drink offered its workers free gym membership, free transportation to work as well as the possibility to buy products at a discount. Prefab has afforded all the workers a 24-hour accident insurance policy.

Natural Drink had Global Reporting Initiative (GRI) as a standard. In the 2004 company Annual Report, five areas of development of personnel strategy were in focus: leadership, expertise, resources, encouragement and well-being. These co-exist with the personnel principles of equality, fairness, working together, bearing responsibility, trust, and respecting each other's work. There is no doubt that these values would be advocated in the human resource management of Natural Drink as well. The social policy of Natural Drink was prescribed in its well-being programme, which was also included in the Annual Report 2004. At the factory, there was a training planner who had discussions with each employee once a year on what training was required. Natural Drink is the only company to have R&D activity in a Baltic country, which may be due

to the features of the local market: local demand is better served when based in the particular country. Although a shift to human resource management and stronger emphasis on labour issues through HRM practices seems evident, there is no indication of research and development activities moving to Baltic subsidiaries.

TABLE 6.2 Work design and labour markets in the market seeking plants

	Insulator	Medicament	Natural Drink	Prefab
Labour turnover	few workers leave annually	minimal	stable situation, although greater mobility among stock-keepers	difficult to say; a high percentage of people leaving for abroad
Mean age	around 35 years	35 years in sales, over 40 in production	observations at the factory imply a dominance of middle-aged female workers	25-35 years
Ethnic composition	over half of the workers represent the main ethnic group	few of the workers are Russian	few of the workers are Russian	less than a half of the workers belong to the main ethnic group
Gender distribution	4/5 of workers are men, women's jobs mainly in the office	female workers number slightly more than male workers	2/3 of workers are women	8/9 of workers are men
White-collar workers	1/3 of the total	white-collars slightly less than blue-collars	less than 1/10 of the workers	1/7 of the total
Number of personnel/IR managers dealing with manual workers	one HR & TQ manager, one assistant; production manager and MD involved in negotiations	one HR manager; partially all heads of departments (7-8 people)	quality manager with personnel manager and training planner (two days a week on-site)	2 people (HR manager and HR assistant), both deal with negotiations
Composition of H&S council	4 members elected for two years	occupational safety council, 6 members (3 manag./ 3 empl.)	occupational safety delegate elected by employees	one H&S specialist
Shifts	two 12-hour shifts	two shifts, 8 hours per shift	two shifts, 12 hrs for production	one or two shifts
Units	production dept. consists of logistics and production (four teams)	marketing and sales, operations (production, warehouses, logistics)	warehouse, energy-mechanic, technical, logistics and production (incl. laboratory)	production line, logistics, maintenance and reinforcement
Operations	operation workers, maintenance, electricians, production quality, cleaners, loaders	no actual production, only packaging, which is a part of the overall process	machine operations, packaging	logistics, maintenance, production

The personnel manager at **Insulator** insisted that the reason to invest (and re-invest) in the particular locality, aside from market opportunities, was the strong start the locality had experienced in terms of marketing and smoothness

of investment. The labour market was tight at the time of the interviews, as labour turnover was increasing and it was difficult to find and retain qualified workers. The firm had, however, managed to keep the bulk of the workforce on its payroll and while labour turnover was relatively slow, it was increasing.

Natural Drink was important for the locality since it was a major employer. The investment was positive for the municipality, although it has a long tradition of industrial production of the same type. The investment was not, however, a mere coincidence, since co-operation already existed between local directors and the Nordic investor. Regarding the strategy of labour management, a clear paternalist style was nurtured. Natural Drink was probably the most generous employer in this sample in terms of contingent benefits: offering employees Christmas bonuses or gifts, free gym memberships, free transportation, meal compensation and the possibility to purchase the plant's products at discount prices.

Although **Medicament's** labour market was relatively tight – or perhaps due to this – the management succeeded in keeping their workers committed, since the labour turnover was minimal. Resultingly, Medicament was a desired employer. The Nordic headquarter's decision to invest in this locality was considered "a lucky chance." A new plant was almost completed at the time of the investment. According to the director, the subsidiary had managed to hire labour that had "not seen the old and the false." In other words, Soviet mentality had not influenced the new plant. From the perspective of the whole production chain, this unit was still the location where most handwork production took place due to low wage costs.

At **Prefab**, the personnel policy was not yet settled in 2004-2005, since the factory itself was not established at the site until 2004. The personnel manager reported that she had not had enough time to deal with personnel matters because the recruitment phase was in full swing. But in 2006, the neglected areas of human resource management became evident. Labour turnover was quite high and the management seriously considered recruiting supplementary workers from Ukraine. Importing foreign labour due to the tight labour market would not, in fact, resolve the problems associated with worker loyalty. In essence, this was the general "solution" used in the Baltic States.

Of course, with regard to the employment policies of these four companies, the cheap-labour aspect cannot be forgotten, at least in certain occupational groups. Nevertheless, due to the scarcity of professionals (e.g. chemical industry experts, locksmiths), companies have offered better wages for some occupations. This wide variety of salaries is evident inside factories and it is not surprising to find twofold wage variations between both ends of the production process. To avoid co-workers from becoming angry or jealous, management strives to keep salary information as "an individual matter."

Generally speaking, all the employees in the market-seeking group of companies were satisfied with their working conditions. Many interviewed employees made comparisons between their current workplaces to previous ones and the consensus seemed to favour current workplaces. At Natural

Drink, a line manager was proud to announce on the grounds of generous contingent benefits provided by the employer: "we have no need for a union." The employer had not faced a strong organising drive despite driving workers to work extreme overtime hours. There was modest contact with unions and they appeared to be of little relevance to the workers. When asked whether pay and other conditions of work should be agreed upon at a federation level, one worker responded: "why? This is not a state-owned enterprise."

6.2 Efficiency-seeking textile manufacturing

6.2.1 Investment motive and nature of production

In the textile industry, the key factor is the price of the product. If the price is too high, the firm simply folds. The managing director at Tailor asserted: "we have to remain competitive in relation to price and production costs." Tailor is actually the sole production unit of its parent company. The workforce is subordinated to adapt themselves to strict limits, given the characteristics of the product market. The director concluded: "the price of a shirt is always fixed in [a Nordic country] the previous year."

Flexibility in the textile and apparel industry labour process is achieved through minimising unit costs, by decreasing indirect costs and producing high volumes in cheap-labour countries, which provides the firm with economies of scale (Piispa 1998, 88). Although Taylorist legacies are strong in the textile and apparel industry, the measures taken to intensify Taylorist production have proven insufficient in promoting long-term productivity. Upgrading of the production process is at least observed in the northern end of the production chain. In the Finnish apparel industry, economies of scope are achieved through the customer-centred product marketing based on the JIT (Just-In-Time) system, urgent deliveries, batch production and R&D that are based in the home country, where workers are trained, jobs enriched and work autonomy increased (*ibid.*). Central to increasing flexibility is the extent to which the stages of the production process are divided into separate processes and how the work in these sub-processes is organised (Piispa 1998, 90-91).

At large, these three companies are similar beyond dispute. All of them are producing a similar type of garments with low wages and turnover. The business concept for establishing these types of companies in the Baltic States seems to be clear: to utilise low-wage labour in order to manufacture products for export. This goal is sought by a labour-intensive work process. The mother companies of Fabrics, Soft Textile and Tailor are mere product design and marketing offices, since all production has been moved to Baltic subsidiaries. The mother companies are micro (less than ten workers) and the subsidiaries small enterprises.

There were actually four small-sized (or nearly small by definition) firms in the sample. There were three clothing enterprises: Fabrics, Soft Textile and

Tailor and one production line firm, Medicament. The position of the workforce was different in the three former firms from the latter one not only in terms of salaries but also with respect to the formers' *dependent* status, dictated by constraints of the market.³⁷ The subsidiary in the Baltic republic is the only manufacturing unit in the processing chain, in which raw material has been imported from the mother company to the subsidiary – also the patterns have been provided by the parent company – and after processing sent back to be marketed further. In a word, these three production units are prime examples of *vertical* investment. All in all, one can make a good case for the argument that all the clothing factories are mere *miniature replicas* (see White and Poynter 1984), producing a variety of products for the parent company (although they are not marketing the products).

The management at the three apparel firms has characteristically adopted a “low road” to the development of the company. The low road to company profitability is characterised by Harrison (1997, 213) as follows:

Along this path, managers try to beat out the competition by cheapening labor costs. [...] Low-road companies try to squeeze the last ounce out of older capital equipment, rather than steadily retooling and upgrading their technical capabilities.

As in Harrison's example, it was observed in the clothing manufacturing companies that the investment in new production facilities and equipment was remarkably low, while old machinery was brought from old premises in the Nordic countries. The Nordic owner seemingly followed a ‘low wage-low skill-low trust’ labour strategy, which is analogous to the ‘three-lane road’ that Royle (2004) observed in US-owned quick-service food MNCs (multinational companies) in Europe.

The subsidiaries presented here are located in each Baltic country, that is to say, one is in Estonia, one in Latvia and one in Lithuania. There is one Danish, one Norwegian and one Swedish clothing plant. As Table 6.3 suggests, the three textile firms are different from one another in many respects but they share many common features as well. The entry mode into the Baltic market is different in each company: Fabrics is a greenfield start, Soft Textile is a joint venture between a Nordic and a Baltic partner and the oldest firm in the group, Tailor, is purely an acquisition. There was one Danish, one Norwegian and one Swedish subsidiary in this category. These were chosen from different Baltic countries. This implies that Nordic companies in Estonia, Latvia and Lithuania do not differ in regards to their export-oriented, low-wage policies.

It is worth nothing that none of these firms were affiliated with an employers' association. In the words of managers, “they did not see any relevance in joining these associations.”

³⁷ By contrast, in the terms by Barrett and Rainnie (2002), we can describe Medicament as an *innovative* firm, operating in a developing market and creating specialised products.

TABLE 6.3 Corporation, investment and firm characteristics of the handwork-based subsidiaries (data from 2004-2006)

	Fabrics	Soft Textile	Tailor
Sector	textile	textile	textile
Firm structure	vertical	vertical	vertical
Company size	< 200	< 100	< 200
Operates in x countries	2	2	2
Market orientation	export, mass market	export, mass market	export, mass market
Entry mode	greenfield	joint venture (Nordic partners)	acquisition
Established in the Baltic States	2001	1995	1992
Turnover 2004 m€	> 4	1	< 1
Size of the site	160	50	70
Management	local middle management, MD in the Nordic country	local management	local management
Sales	at the headquarters (in the Nordic country)	the orders and raw material sent from Nordic headquarters	at the headquarters (in the Nordic country)
Research and development	at the headquarters (mainly design)	at the headquarters (mainly design)	at the headquarters (mainly design)
Trade union	yes	No	Yes
Employee representation	shop steward	N/A	shop steward

Fabrics can be regarded as a greenfield investment, since the current premises were built in 2001. However, the Nordic owner has had operations on another site inside this Baltic country, from where production was moved to the existing location. The plant is located in a village within proximity of a provincial centre. Upon starting the construction of this site, employees were hired from the locality. Initially, they were trained with the help of local district administration. Some of the workers moved from the previous production site to this plant. At first, they had 70 employees in Fabrics. It was reasonable to invest in this locality because of a sufficient supply of labour force, who had recently been given notice by a neighbouring cement processing plant. After being in operation already in the Soviet time as source of livelihood for many villagers, the cement plant was acquired by a foreign investor in the 1990's and came under rationalisation measures. Fabrics is entirely owned by the mother company. The turnover for the year 2004 was more than 4 million Euro. The mother company has no other subsidiaries. Fabrics serves as a mere production site for the Nordic owner - 100 percent of the production is exported to the headquarters located in the company home country to be sold further. The owner has not introduced any major technical changes since the company's inception, and its business partners have remained the same.

Soft Textile turned ten years in 2005. The company had previously been operating on smaller premises, and moved to the current site due to its increased spaciousness. Another textile company, which also had Nordic owners, was operating in this site before the move. Soft Textile is a joint venture between a Nordic investor and a local businessman, who acts as the managing director of the company. The Nordic and the Baltic owner have an equal stake of the firm. When the production began, the Nordic owner imported all his equipment from the homeland. Soft Textile had the advantage of having a sufficiently qualified workforce and lower wage levels compared to other regions. Annual net sales of Soft Textile were approximately one million Euro with its biggest customers located in West Europe.

Tailor was established in 1992, when the Nordic investor took it over via a privatisation agency. During the Soviet time, the factory had been affiliated to a larger textile mill that ceased operations in the premises right before the Nordic investor commenced operations in Tailor.³⁸ Hence a number of Tailor's employees had already been working on the site before the acquisition. In the very beginning, there were only 25 employees. The main reasons for investment were an appropriate location, existing real estate for production and a qualified workforce due to the previous enterprise on the site. The turnover used to be 650,000–750,000 Euro per year, but it was expected to increase due to the transfer of material sales to this unit. The turnover had been based on the expenses of the unit, not on value of the sales of the company. The whole production process (except quality control) was moved from the headquarters to Tailor. The headquarters was still in charge of administration, delivery and design of the end products. The mother company had no other subsidiaries. During season periods, some production was also outsourced to other Baltic textile manufacturers. Nordic countries were the main market for Tailor's products. The Nordic owner had provided Tailor with production technology and brought used equipment to the site.

6.2.2 Work design and labour market

Female labour seemed to be a prevailing feature of the labour process at clothing plants, including the use of Russian female workers as a source of cheap labour pool in one case in this study. The organisation of work at these factories was based on Taylorist principles, which was even acknowledged by representatives of management. Directors treated workers more or less homogeneously in these factories. These factories bore a remarkable resemblance to the 'paternalist autocratic' style observed by Edwards and Scullion (1982) in their 'Hosiery Factory' case. The predominance of female workers is at the core of the style adopted, since there are peculiarities in female work culture that can be complemented with Taylorist work organisation.

³⁸ Tailor is a brownfield investment, that is to say, established in the place of a former state-owned textile manufacture in 1992. The change in ownership was organized smoothly so that the old enterprise finished its operations on Friday, and Tailor started to operate on the following Monday.

Women are flexible labour, and a female workforce adapts easily to changing requirements (Piispa 1998, 89). The adaptation tendency of female workers was also observed in Edwards and Scullion's (1982, 44-45) case studies on clothing factories.

In this type of production, management frequently drew upon the ease to capital relocation. Such pressure policy at Fabrics (and to some extent at Tailor) had an impact on employee relations and affirms the strict sense of discipline adopted by these firms. The director of Fabrics had threatened to close the plant some time prior to the workers' interviews, which apparently increased mental and physical stress among the workers. This is consistent with the view of Herod et al. (2007, 250) that under globalisation "capital is viewed as capable of transcending space while labour is necessarily confined to place, a confinement which will encourage workers to be quiescent if they hope to secure their economic futures". This strategy was very effective in keeping workers quiet, although it did not nullify resistance on the whole.

As regards *pay* in all three companies, piecework systems were introduced to motivate workers for their hard effort. The pace of work was fully determined by those who fixed the piece rates, and at each factory this was under the jurisdiction of management. The payment scheme at Fabrics was a piecework system, although the pieces were misleadingly called "minutes" there. Every detail has been estimated by means of minutes (e.g. a certain piece took four and half minutes), and every worker was supposed to reach a total of 480 minutes per day.³⁹ Soft Textile had introduced a transparent system of payment by the piece. No wage complaints were voiced by the interviewed workers. Payment per piece and a bonus arrangement system were in place. The bonus payment was based on monthly performance. Only four auxiliary workers were compensated on an hourly basis. Tailor had introduced a "norm" of 480 garments per day. In case of fulfilment of the norm, a five-percent premium was paid; ten percent extra premium was afforded in case of 500 "pieces" per day; and non-fulfilment led to a deduction of five to ten percent.⁴⁰ Premium payments depended on group performance in 2004, but in 2005-2006 on the performance of the whole factory.

Tailor and Fabrics had also introduced a negative means for "motivating" their workers. In Fabrics, a penalty of not paying + 10 percent bonus was assigned to those who had not reached 75 percent of the norm or - strange as it sounds from the Nordic point of view - those who had been sick. In the case of non-fulfilment of the norm, the salaries of Tailor's workers were reduced by a negative coefficient of either -5 percent or -10 percent. The fact that Tailor's wages had not increased in line with the rate of the cost of living index for three

³⁹ Fabrics's employees had to perform 480 minutes (meaning 8 hours times 60 minutes) during one day in order to fulfill the norm. Although the working time - which in turn was bound to the pieces - was officially calculated to be 8 hours, in practice some workers had to be at work for 9, even 10 hours. This was due to the fact that the time calculated for one piece was underestimated.

⁴⁰ That is to say in Tailor, the perceived wage = piece-rate wage + hourly paid wage + overtime work payment + coefficient of the fulfilled norm + guaranteed extra piece-rate hours multiplied by 1.75 + guaranteed extra hourly wages multiplied by 1.75.

years proves that a strict control regime with an autocratic style of management was prevailing at the three subsidiaries.

TABLE 6.4 Work design and labour markets in the first-generation efficiency-seeking textile plants

	Fabrics	Soft Textile	Tailor
Employee mobility	problems with emigrating workers as well as those left for the country capital (especially young ones)	loss of workers emigrating abroad	high turnover as a nearby electronics plant attracts workers
Mean age	slightly above 30	around 30	around 35
Ethnic composition	60-70 percent are Russians	all the workers belong to the main ethnic group	a few workers are Russian
Gender distribution	only 4-5 (of the total of 160) workers are men	8 (of the total of 50) workers are men	3 (of the total of 70) workers are men
White-collars	5 people	3 full-time, 2 part-time	2-3
Number of managers dealing with manual workers ⁴¹	only personnel manager	a part-time (50 percent working time) personnel manager working for 5 companies within the industrial park	a function of all management: production manager, technologist, master
Composition of H&S council	N/A	N/A	two (shop steward + another)
Shifts	different shifts (8 hrs), morning shift common	two shifts, 8 hours per shift	one shift, 8 hours
Units	incoming stock (2 empl), production (100 empl), steaming and packaging (20-30 empl), incoming control (11-12 empl)	no special division into departments, all the staff is directly under the control of administration	production is divided into four groups, which in turn have subgroups; the master takes care of organisation of work
Operations	sewing, embroidery, printing, cutting, steaming, packaging	sewing, cutting, packaging, ironing	sewing (half of the workers), cutting, stock-keeping

The managerial strategy to provide low wages was apparent in this category. The mean salary was 260 Euro, with deviations to this average as a minority trend among the workers. The highest salaries were in Tailor, with 280 Euro on average, while they were 250 Euro on average both in Fabrics and Soft Textile. The fact that all wages were low is worth noting. Only one worker said that her salary is more than 300 Euro.

Fabrics' management acknowledged that a serious problem was posed by the steady flow of young workers to the country's capital and abroad. The investment in this site, in essence its relocation from a site in the same Baltic country to the current premises, proved to be based on a miscalculation of the expected behaviour of the labour market. Fabrics' intention was to utilise a relatively skilled labour pool that was left unemployed in the face of the

⁴¹ Refers to the number of plant-level officers, excluding clerical staff, dealing with personnel matters.

reorganisation of a neighbouring plant. Still, young people did not regard this as their future job. Although absenteeism was sanctioned by wage reductions in Fabrics, the company had not managed to significantly reduce the sick leave of workers. These features, namely high levels of absenteeism and labour turnover, directly corresponded to the cited individual forms of industrial conflict characteristic of strict discipline.

The interviewed workers reported considerable sick leave in Fabrics as well as in **Soft Textile**. In both companies there was also quite a clear "exit strategy" to work abroad. Moreover in the latter firm, the labour supply was complemented by temporarily hired workers from other neighbouring firms during the "high season" in the spring.

One of **Tailor's** reasons to invest in the site was the existing labour force, in addition to the appropriate location and premises. The factory had managed to secure its labour supply as of 2005, during the first round of interviews, but in 2006 the managing director complained that an electronics factory had begun to attract their workers and labour turnover had increased. In this connection, however, the director mentioned that in another Baltic country the apparel was produced at a cheaper price.

The workers at the clothing plants provided contradictory assessments of their working conditions. Soft Textile was an exception in the sense that there was consensus that working conditions were good. In Tailor the comments varied although the majority reported the working conditions to be more or less satisfactory. The workers of Fabrics described miserable working conditions. In the latter case, ills were reported such as inadequate lighting and ventilation, heat, little space in dressing rooms, and shortage of microwave ovens for lunchtime. At first sight, the conditions at Fabrics and Soft Textile did not appear to be much different. One explanation for the opposing opinions expressed about the working conditions in these two factories may be that the workers of Fabrics dared to express their opinions, whereas those interviewed at Soft Textile were more loyal to the employer.

6.3 Efficiency-seeking engineering shops

6.3.1 Investment motive and nature of production

The case study companies in this category are indisputably similar with regards to their investment motive (efficiency seeking), industry (metalworking) and work organisation (workshops). Perhaps the status of the subsidiary within the production chain – whether the unit is a part of a vertical organisation or only a replica of numerous similar units within a horizontal organisation – determines the product and value-adding scope. It is supposed that the second generation of efficiency-seeking companies would transfer some of the research and development to the Baltic subsidiary. Some R&D is already taking place at Steel Works. It is worth noticing that when there is a vertical company in question

(Steel Works), it is much easier to introduce human resource intensive operations in the subsidiary. At Water Vehicle, it is up to the Nordic headquarters' strategic plans to determine the extent to which production is upgraded at the Baltic subsidiaries. It is not expected, however, that research and development facilities would be introduced in a standardised production process such as at Profile Maker. In this sense, the organisation of production and its position in the production chain is different at Profile Maker, Steel Works and Water Vehicle.

The firms in this category have developed their subsidiary activity along two dimensions: the product scope, and (as for Steel Works), value-adding scope. Changes in the product scope occur according to "the latitude exercised by a subsidiary's business with regard to product line extensions and new product areas" (White and Poynter 1984, 49). Although the investment in Profile Maker had not yet been long-standing, the introduction of new products can be seen in the successful adaptation to subcontracting to the Nordic retail firm. Water Vehicle also managed to change its product scope in the 1990s, partly before the Nordic takeover in 1994. With regards to Steel Works, there is a continuous re-orientation to new production with the assistance of the subsidiary's own R&D activity. In other words, the plants in this category are *rationalised subsidiaries* producing a certain set of component parts or existing final products for a multi-country or global market (see Tavares and Young 2004, 267).

Efficiency-seeking second generation plants neither focus on meeting local market demands (as in the case of market-seeking investment) nor on targeting mass markets with bulk products (as in the case of handwork manufactories). Rather, their objective is to provide batch products for principal firms or end users. Contrary to first generation efficiency-seeking investment, the production concept in this category prefers human resources to low-skilled labour, although the efficiency and productivity of the process are valuable objectives as well. Host countries desire this type of investment because of the positive spill-over and industry upgrading effects. In the case of Profile Maker and Water Vehicle, the production consists of intermediary products either for a multinational retail company (Profile Maker) or for the principal firm to be assembled (Water Vehicle). Steel Works produces more directly to end-users.

There is one Danish, one Norwegian and one Swedish subsidiary in this category. One of them is located in Estonia, one in Latvia and one in Lithuania.

TABLE 6.5 Corporation, investment and firm characteristics of the engineering shops (data from 2004-2006)

	Profile Maker	Steel Works	Water Vehicle
Sector	metal	metal	metal
Firm structure	horisontal	vertical	horisontal
Company size, employees	8,200	180	70,000
Operates in x countries	13	2	125
Market orientation	global market, majority of products exported	global market, majority of products exported	global market, majority of products exported
Entry mode	greenfield	joint venture (Nordic partners)	acquisition
Established in the Baltic States	2004	1999	1905
Turnover 2004 m€	> 7 (start year)	7.5	> 17
Size of the site	70	160	710
Management	local management	local management	local management
Sales	based in the country capital	in the home country	in the home country
Research and development	in the company's home country	R&D department as well as R&D manager works at this plant	in the home country
Trade union	no	no	yes
Employee representation	works council	none	shop stewards + convener

Profile Maker is a greenfield plant, founded in Spring 2004. Prior to the investment in its own production, Profile Maker had only had a sales office in the country capital with four employees (since 1998). The subsidiary employed only seven workers in Spring 2004, but a year later, at the time of the interviews, this number had already increased to 50 workers. In 2006, there were 70 employees, which showed a slowdown in subsidiary growth. The plant is located in the second biggest city of this Baltic country. The reason for investment was said to be the expanding market for this kind of metal products. However, at the end of 2007, the company's own website reported that Profile Maker exports the majority of its products to a Nordic multinational retail firm. It is possible that the initial aim was to provide the Baltic market with this kind of metal products, but eventually subcontracting to the Nordic chain might have proved more profitable. The turnover for the year 2004 was more than seven million Euro. In addition to Profile Maker, the mother company also has production in other CEE countries, but only with sales offices in the other Baltic countries.

Steel Works was established in 1999, when a Nordic investor set up a joint venture with another originally Nordic firm that was based in the Baltic States. All the production equipment was moved from the investing company onto

this site. The production started in November 2000. The investment motive was a desire to reduce operational costs. The plant was established on the site of a former plastic processing plant. The plant had significantly decreased in profitability since 1991, and in 1997 it was privatised. A Nordic consortium took it over in order to provide premises for manufacturing within the newly established industrial park. A few of the existing Steel Works employees had also worked for the previous company. The turnover for the year 2004 was 7.5 million Euro with 85 percent of the production (in terms of net sales) exported to the home country.

Water Vehicle is located in proximity of the country capital. It was already founded in 1905 under the Tsarist rule. It provided only repairing services until the end of the 1970s, when it launched the production of steel structures. The collapse of the Soviet Union resulted in a drastic drop in employment: with 1,100 employees in 1989, the firm employed only 340 workers shortly after the re-gaining of independence as many skilled workers left for their home countries, namely Ukraine and Russia. At the beginning of the 1990s, the volume of production decreased rapidly. Many facilities for employees and their families (e.g. the kindergarten) were outsourced and the company started to concentrate on core business. After the 'shock start', the situation consolidated, and the number of workers gradually started to grow, reaching 850 workers during an intensive production period in 1999-2000. Water Vehicle has provided steel structures for Nordic companies since 1992, which prompted the current owner to acquire and further develop the site. The Nordic takeover in 1994 was followed by a comprehensive renovation of the facilities and installation of advanced production equipment. The investment decision was inspired by low labour costs, favourable taxation conditions, and a suitable geographical position. The business idea has changed slightly since the subsidiary completed the repairing work, to focus on the production of intermediary products. In addition to Water Vehicle, the Nordic owner has also acquired a similar production site in another Baltic country.

6.3.2 Work design and labour market

The production process at second-generation efficiency-seeking plants is based on workshops (see Appendix 4, Figures 8, 9 and 10). The size of the company is reflected in the number of shops. Whereas the whole production fits into one shop at Profile Maker, there are six different shops at Steel Works, each of which employs 15-30 workers, and four shops at Water Vehicle employing 50-180 workers. A salient feature in Profile Maker's organisation of work is the prominent role of CNC (Computer Numeric Control) stations at one end of the shop, which implies a reliance on the skilled workers operating these machines. At Steel Works, the design of the work organisation was slightly different from the other factories, for there was one common department making parts for the other departments. CNC, chemical and other techniques were used at this shop. The other departments composed, welded, painted and inspected tailor-made products for particular clients. The production process was not very

automatised due to the wide variety of end products. At Water Vehicle, the four production departments were organised in a way that the department manager had one or two senior masters as subordinates, who from their part act as the superiors of masters. Masters in turn command the team leaders, or *brigadiers*. This command structure dates from the Soviet Union.

Pay schemes were currently under adjustment at Profile Maker (from piece-rate based to hourly rate based) and Water Vehicle (from hourly rates to piece rates). Wages were paid by the piece earlier at Profile Maker, but a new pay system based on hourly wages and bonuses was introduced in 2006. At Steel Works, the wage depended on the skill level (five categories) with hourly rates, but work in serial production was paid by the piece.

TABLE 6.6 Work design and labour markets in second generation efficiency seeking plants

	Profile Maker	Steel Works	Water Vehicle
Labour turnover	not significant once the factory newly established	employment increasing, although ups and downs	quite stable situation
Mean age	33	most employees between 20 and 35	36 (skilled workers), 42-43 (white collars)
Ethnic composition	almost all represent the main ethnic group	2/3 of the workers Russian-speaking	dominant portion of Russian workers
Gender distribution	2/3 of workers are men	only a few female workers	majority of the workers are men; women in packaging
White-collar workers	1/3 are white-collar workers	1/10 are white-collar workers	1/7 workers are white-collars
Number of personnel/IR managers dealing with manual workers	HR manager, shop foreman, and also General Manager deals with these issues	HR manager; foremen and production unit leaders also involved, altogether 10 people	10 employees in HR department
Composition of H&S council	quality manager takes charge of these matters	HR manager takes care of these	chief safety specialist (full time) + assistants + 25-26 trained people capable of providing first aid
Shifts	three 8-hour shifts	most important machines run in three shifts round-the-clock	usually in two 8-hrs shifts, if need be, three shifts; also 12h shifts
Units	sales, production, technology department (so far consists only one worker)	five departments. Universal dept. prepares parts for other 4 departments. There are 15-35 workers per department.	22 different structural units or departments, four of which directly related to production employing 2/3 of the workforce
Operations	production, CNC operations, warehouse	CNC, chemical techniques, composing, welding, painting, control	welding, product line work, locksmiths, painters, repairers and crane drivers; cleaning

Water Vehicle obviously had the most sophisticated pay system. In addition to piece-rates paid according to a five-tier wage categorisation,⁴² a 'participation coefficient' had been introduced. Senior workers of the cadre decided who was eligible for a wage premium within the brigade. It is worth noting that this reward was deducted from the participation fund of other brigade workers who were not that "good". The personnel manager set forth the mechanism: "when, for instance, Misha made a bad job of it, he may be paid according to the coefficient of 0.9. [...] It may happen that a person who has the second category, can have a wage based on the third category." Thus, although the wage categories were linked to skill levels, they might have altered 'work participation', while workers engaged in a sort of 'performance game' and entered into competition with one another. Therefore, the wage categories were not meant primarily for the promotion of workers on the basis of qualification, but the adjustment of workers to a 'making out' game (see Burawoy 1979, 10-11, for a fuller discussion).

In **Profile Maker**, only four workers went abroad in 2006, with a larger number of workers hired. Compared to the "Prefab" market-seeking production plant presented in Chapter 6.1 and established in the same year, labour management at Profile Maker has been much better planned and more HRM-oriented. The HR manager has not only been devoted to recruitment since the implementation of a campaign (a "Genesis" project) and an attitude survey in 2006 to get workers to be committed to their work. Working conditions were seemingly good at Profile Maker, which may partially be due to the fact that the plant is new. One worker mentioned: "Work safety here is totally on a different level than in the textile industry where I worked for 18 years". Indeed, worker safety issues appear to a large extent to be the managers' "affair of the heart" amidst the formation of the working environment.

There appeared to be a chronic deficit of skilled employees especially at **Steel Works**, although the managing director insisted that the main motives for investment were labour costs and the ratio between price and quality of labour. It is a nation-wide problem that only middle-aged or elderly locksmiths and welders who have adequate work experience are available, for since the re-gaining of independence, the state of vocational training has been less than ideal.

There were four reasons for investment at **Water Vehicle**: cheap labour, cheap energy, existing resources, and favourable tax policy. It is noteworthy that while these were the cited reasons of the personnel director, the cheap-labour aspect was mentioned first – even though this factory's qualification requirements were among the highest amongst the case study companies. The subsidiary's own centre arranged training for welders, since the education facilities afforded by the government were still considered to be backward-

⁴² Previously, two shops used to pay hourly wages with premium whilst piece-work rates were utilised at the other shops. However, the piece-work system was extended to the whole factory. According to the personnel director, workers also desired the change because hourly rates had not kept the pace with piece rates.

looking. The firm had already hired welders from Ukraine, and intended to recruit more. Both Steel Works' and Water Vehicle's managers complained about poor standards of occupational training.

6.4 Resource-seeking quota-based food processing

6.4.1 Investment motive and nature of production

The market scope of the activities at quota-based food processing plants is largely confined by the quotas determined by the European Union. The strategy of the headquarters with regards to the prospects of production at the site is reflected in the product and value-adding scope of the activity. At Foodstuff, positive developments can be seen in terms of both the product and value-adding scope. Recently, the Nordic mother company decided to relocate more production to Foodstuff, thus widening the product scope. Also, some R&D has been transferred from the Nordic firm to the Baltic subsidiary, although there is no separate R&D unit but rather different developmental projects led by the R&D manager. Foodstuff has proven to be an optimal investment in the sense it has gained competitive edge against similar production sites. It counts itself among the few Baltic producers in this industry to not have declared bankruptcy or ceased operations.

An outside observer may be under the impression that the motive of the Nordic investment in Ingredient was to buy out a potential competitor and downsize it. Therefore, the aim of the Nordic multinational has not necessarily been to conquer the market or gain quotas in the first place. Accordingly, Ingredient's future prospects were completely contrary to those of Foodstuff: at the outset of investment, the headquarters may have already had a plan of closing the subsidiary, while it continuously abstained from further investment on the site. We can draw a conclusion that a resource-seeking investment in quota-based production has the potential for the workforce either to benefit from the situation or to become trapped in the downsizing plans of the parent company. The two production plants presented in this category, Foodstuff and Ingredient, were located in different Baltic countries, and the investors came from different Nordic countries.

TABLE 6.7 Corporation, investment and firm characteristics of the quota-based food processing plants (data from 2004-2006)

	Foodstuff	Ingredient
Sector	farm product / food processing	farm product / food processing
Firm structure	Horizontal	horizontal
Company size	600	10,000
Operates in x countries	7	40
Market orientation	quota-based market	quota-based market
Entry mode	Brownfield	acquisition
Established in the Baltic States	1991	1998
Turnover 2004 m€	5	50
Size of the site	70 (plus 20 seasonal workers)	190 (80)
Management	local management	local management
Sales	on the site as well as in the country capital	some marketing at Ingredient
Research and development	located in home country, R&D manager also in this unit; staff involved in development processes	in home country of the parent company
Trade union	no	yes
Employee representation	N/A	shop stewards + convener (+EWC)

Foodstuff was already founded in 1937, just before the Soviet regime took effect in the Baltic States. Basic production had been running until the Nordic owner took over the company in 1991. The reason for investment was an optimal operating environment in the Baltic States. Given the earlier production site, Foodstuff had the advantage of having a sufficiently qualified workforce. While it was located in the countryside, it had lower wage levels compared to other regions. Nordic activity at Foodstuff began as a joint venture between the Nordic owner and workers of the factory. Gradually the Nordic investor become almost the full owner of the shares and real estate associated with the factory. The turnover for the year 2004 was about 5 million Euro. In addition to Foodstuff, the company group also has a production plant in a Nordic country and in another CEE country. The main markets for Foodstuff's products are the Baltic States. Although a similar type of plant existed on the site during Soviet time, the investor has installed completely new production technology and transferred some R&D to the production unit.

Ingredient was established in 1940. It is located in a regional centre. In the 1950s, there were almost 1,000 workers in the company. In the 1980s, the number of workers dropped to 600 (inclusive of seasonal workers). Ingredient benefited from a partnership with a supplier from another socialist country. The work in Ingredient was - and still is - seasonal, running actively for 3-4 months due to the supply of raw material; the partner provided raw material during the

remaining 7 months. Although the partnership collapsed, basic production was not interrupted as a result of the regaining of independence in 1991. The shares of the enterprise were allotted to the workers in 1993 as tends to be the general trend in connection to privatisation in this country. A domestic retail chain purchased the shares from the workers and sold them further to a Nordic company group in 1998. The reason for investment was a strategic one: to assume a position in Eastern Europe through the acquisition. As to the financial year of 2004-2005, the turnover of Ingredient reached 50 million Euro. Besides Ingredient, the parent company owned a similar unit in the same Baltic country as well as plants in Nordic countries and Germany. The main markets are the Baltic States and the EU. The Nordic investor has invested very little in production technology but has made some organisational changes.

6.4.2 Work design and labour market

The work design of the quota-based food processing plants falls between the line production plants and engineering shops. It is observed that core production constitutes only one part of the production process, where auxiliary operations also play a considerable role (see Appendix 4 Figures 11 and 12). Smooth interplay is necessary between different departments especially during the autumn season when the crop has been harvested and the production process must function with full capacity.

One might wonder if some type of quality assessment teams were introduced at Foodstuff, where basically all departments were collectively involved in the development of the company. But contrary to the real quality circles,⁴³ these groups were formed by request for different "projects", so they were not voluntary ones. They also consisted of workers from different departments (sales, production, administration) whilst genuine quality circles are generally formed within a particular department.

At Ingredient, teamwork had been organised around *brigades*. These were small teams, each with a leader or *brigadier*. Usually masters give orders through brigadiers. Brigadiers had similar work tasks as the rest of the brigade, in addition to assuming some responsibility for the organisation of work. They also often had better qualification than the rank-and-file workers.

⁴³ Quality circles are small groups of workers (5-20), usually led by a foreman or senior worker who meet regularly to study and solve all types of production problems (Littler and Salaman 1984, 87).

TABLE 6.8 Work design and labour markets in the resource-seeking companies

	Foodstuff	Ingredient
Employee mobility	after EU accession a few workers have left for the UK	natural process: employees leaving for pension – a diminishing trend; difficulties to find labour in the season
Mean age	> 30 in production, 40 in packaging	around 45 years
Ethnic composition	a few Russian workers	virtually all of the workers belong to the main ethnic group
Gender distribution	mainly men in production, women in packaging	70 percent of the workers are men
White-coll. workers	1/10 of the workers	1/4 of the workers
Number of personnel/IR managers dealing with manual workers	a personnel and a production manager	the head of the personnel department plus one assistant
Composition of H&S council	one engineer and technical manager + employee trustee	3 employees (TU conducted a vote) + 3 representatives of management (production manager, chief power engineer, safety specialist)
Shifts	one 8h shift, in the season 8h shifts round-the-clock	one 8-hour shift off-season, during the season 12h shifts
Units	production dept. (consists also tech. maintenance) packaging and quality lab	off-season: ergo-mechanic dept., electro-automation, packaging
Operations	operation workers, maintenance, quality lab, packaging, warehouse	machine operators, process operators, service engineers, laboratory work

In terms of *pay schemes* at Foodstuff, both hourly and piecework rates were used in production, but off-seasonal repairs were always paid on an hourly basis. A premium was granted once a year depending on the performance of the firm. The management council decided upon the allowance of the premium. There used to be 16 tariffs in force at Ingredient, but at the time of the interviews a new hourly wage system had been introduced with more of an emphasis on individual salaries. As the subsidiary had previously used 10 different wage levels, everyone now has an individual wage, formulated on the basis of season and off-season work.

One could argue that the employer was taking undue advantage of the workforce at Foodstuff. This is closely linked to the company's policy of offering temporary job contracts and the lowest salaries amongst all the researched companies (160-240 Euro among the interviewed workers) – analogous to the exploitation of the labour force in the clothing factories. The low salary level might be due to the location in the countryside, quite far away from any big city. The question arises: did the low salaries offer the Nordic owner an incentive to continue investment at the plant, whereas the better bargaining position of workers at Ingredient ultimately led to the closure of the plant? Although the wages were very low at Foodstuff, the workers were indeed in a negligible bargaining position in this peripheral location, and they did not regard collective action as an option.

There was an evident inclination to paternalist management style, in which management stresses the power of its personal relationships with the workers (Edwards and Scullion 1982, 44). Along the lines of paternalism, there was also a strong sexual division of labour at Foodstuff. The production manager took it for granted that where there was more technical work, there were more machines and consequently more men's jobs. To confirm this point, he asserted: "Maybe men are like automations workers, [operators of] packaging machine, [...] but all the handwork there is done by women".

Given the season-specific organisation of work, Foodstuff and Ingredient employed a considerable amount of seasonal workers. Auxiliary labour had fixed-term contracts, and they accounted for around 20 employees at Foodstuff. The management intended to make this figure as low as possible. The possibility of becoming a permanent worker made the fixed-term employees compete with each other, which increased work effort:

Interviewer: So, you always have negotiations about your workers and about whom should be given a permanent job?

Representative of management: Yes, that is also a big bonus, a benefit we can give. After the campaign I can say: normally we keep all the foremen who work all year, but now we can also keep some other people as permanent workers. It is a big thing for them, as I say, you have been doing such good work this year, that I'll keep you as a permanent worker.

According to the interviewed manager, low costs were the main reason behind investment. The investment strategy was aimed at maintaining control over the local labour. Through its status as a major employer in the locality, Foodstuff had the opportunity to choose its workers and pressure them into remaining loyal to the firm in return for gaining or retaining a permanent job. One interviewed worker reported that he had been on a temporary working agreement for five years. This was continuously extended without the promise of a permanent position.

There were around 100 fixed-term workers during the season at Ingredient. It was a challenging task to recruit young people for a summer job characterised by long working hours, intensive pace of work and relatively low compensation. At the same time, a natural exit from work occurred as elderly workers retired. The external labour market loosened due to the recent closure of a big electronics equipment plant leaving 4,000 workers unemployed. Irrespective of any of these labour market characteristics, the headquarters had decided upon the closure of this unit and a gradual refraining from further investment in the locality. The main reason for the downsizing was EU-level decision-making aimed at restricting quotas for this type of production.

6.5 Summary

The analysis of the role of subsidiary is based on the categorisation of the case study companies according to the nature of their product and the nature of labour. Various investment strategies are discerned through the examination of investment motives and subsidiary roles, both of which elucidate the chosen product (market) strategy and the strategy of labour management. In addition to this, the analysis of work organisation provides with a technological account of the firm. Within this context, technology is considered from the labour process perspective, which encompasses the technical and social organisation of the labour process including the flow of production, machinery, equipment and instruments, cooperation, division of labour, directive relationships, means of control, and work intensity (Julkunen 1987, 17).

In light of the analysis of the investment motive and subsidiary role, it is apparent that the Nordic manufacturer has adopted the 'low road' to the investment and development of the Baltic production process. With little intention to upgrade the production process, these industrialists prefer Taylorist and Fordist production policies to flexible specialisation in the subsidiaries. The free mobility of capital and labour between Nordic and Baltic countries has not resulted in a convergence of standards and conditions, as neo-classical theory assumes. Rather, this has reinforced the segmentation of labour markets and divergent patterns of development (Johansson 1997, 203). However, as we think about the position of workers in some sectors where labour is more subject to economic instability, we should keep in mind that the primary motive of management is not to divide and weaken the workforce as a whole but to react to unstable and unpredictable product demand (*ibid*). These points are illustrated in Figure 6.1.

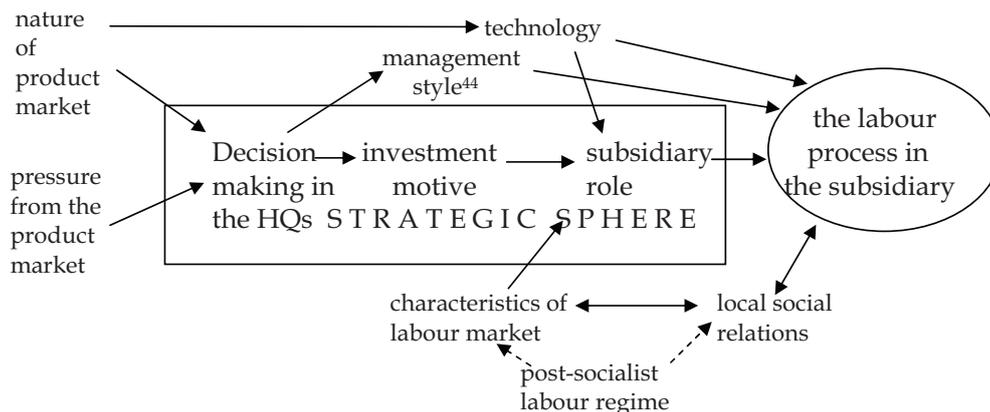


FIGURE 6.1 The impact of external and strategic imperatives on the labour process. Factors elaborated inside the square are subject to strategic planning, while the factors outside the square are not necessarily strategic choices

⁴⁴ Management styles at the Baltic subsidiaries are examined elsewhere (Sippola 2009).

7 EMPLOYEE RELATIONS

An analysis of employee relations, including key actors, employee participation and workplace bargaining, is central to research on the labour process. Here the emphasis is on the relational aspect of the labour process, characterised as *relations in production*, i.e. shop floor relations into which employees enter, both with other workers and management (Burawoy 1979, 15). My contribution to the perspective from the labour process theory is that in addition to labour market characteristics, pressures from the product market are also taken into account as determinants to the resulting relations in production. Thus investment strategy plays a part in shaping the patterns of employee relations. This is the reason for the grouping into market, efficiency and resource seeking subsidiaries in a similar way as in the previous chapter.

7.1 Market-seeking production plants

7.1.1 Actors in employee relations

It was known during the selection of the case study companies that one company in the market-seeking category, Insulator, had robust employee relations with an established trade union. It was assumed, and also later confirmed, that this relation was also institutionalised by a collective agreement. During the preliminary interviews (prior to the company interviews), I was able to gauge which enterprises in the sector had a trade union. Therefore, during the selection process, I was made aware of emerging trade union activity in Prefab through a federation-level representative. Insulator's union still had 30 percent of the company's employees as members (this figure having been greater at the end of 1990s), and Prefab was in the stage of increasing the number of organised workers, having 25 percent of the workers unionised at the time of interviews. It was a coincidence that I came to

know that there had been a union at Medicament as well. An interviewed worker – who happened to be the convener when the union came into being in the 1990s – revealed this information. There was no form of employee representation at this factory at the time of the fieldwork. Natural Drink was the only company among the market-seeking subsidiaries without a trade union experience after the re-gaining of independence. Natural Drink had health and safety representatives in place.

Insulator's employee involvement policy that emphasised the 'high trust' aspect has produced a *dual commitment* to both the enterprise and the trade union. This was acknowledged by the representative of the trade union in this company: "The employer values people quite well without the trade union, too, establishes conditions, and the trade union has in principle hardly anything to do except for increasing wages and mediating information to the employer". The company had managed to transfer some assets associated with trade unions out of the reach of the union. Wage negotiations were the only essential function left in the hands of Insulator's union. Functioning as a unidirectional information channel – making inquiries among workers and delivering this information to the management – is not the core mandate or conceptualisation of a trade union. The trade union in Insulator may confront a revaluation of its authority if this trend persists. The comment above by the trade union trustee reveals the real powerlessness of the company union in the current situation. On the basis of the responses of the interviewed workers, a conclusion can be made that there are controversial attitudes towards trade union activity in Insulator. One excerpt:

...all the good things the trade unions has succeeded to negotiate, but when any bad thing happens, the blame has been laid on trade union's shoulders. (...) The trade union installed a container of drinking water. Everybody uses it but does not go the credit of the union.

The development of industrial relations in **Medicament** provides us with a narrative of the rise and fall of the trade union. The company union was launched in the middle of the 1990s, existed a couple of years, and dissolved. An excerpt from an interview with one of the workers discloses some traits of its activities:

Worker: I was a member of trade union, when we had one in Medicament.

Interviewer: On its history: why was it established, and why did it cease operations?

Worker: Why did it start? Because it seemed to be great. ... But that thing did not work. We only paid fees, with no purpose. We had only a small number of members.

The trade union was established when the trade union federation of agricultural workers was seeking members. Medicament, in fact, was not under the jurisdiction of this federation. A few active employees created a union, which at its height managed to unite about one third of the workers. The union did not gain sufficient power to reach a collective agreement with the employer. A union representative of that time expressed his frustration: "We were

thinking that the trade union is a source of aspiration in other parts of the world, and we also formed one. However, when participating in the meetings of the trade union federation, they appeared to be relatively passive.... They were discussing, but not achieving any results. Therefore we let it be. (...) We did not yet reach the point where we could have reached a collective agreement with the employer."

It would be difficult to re-establish trade union activities in this company. Communication is highly individualised in Medicament, and salaries are not collectively discussed. As stated by a representative of management: "We do not have a trade union. The administration has resolved such questions. We hold a conference every year, where questions will be put forward. We have solved these issues without any trade union". It does not seem as though it was the employer's fault that Medicament's union ceased to exist, but rather this was due to the poor capabilities of the trade union movement in this peripheral region to organise people and show them the value of their membership fee.

Natural Drink has the potential to cope with the functions of employee representation and consultation through means other than a trade union or another representative body elected by workers. It appeared that the work environment committee was able to act as a type of employee representative, even according to some interviewed workers. Two of the interviewed employees regarded the four members of this council as their "trustees". Furthermore, the third respondent mentioned that "we have certainly such an organ, which takes care of people's well-being and working conditions..." This body seemed capable of compensating for the need for a trade union in employees' minds. In fact, there were contradictory reports from the interviewed workers denoting confusion between bodies of employee representation and safety committees. The interview of one worker disclosed that she had no idea to which body votes had been cast during a recent election.

Given the fact that there was neither a trade union nor probably any other representative body of employees at Natural Drink, it is worth noting that there have been confrontations between management and employees, or in other words, collective disputes. Some sort of collective negotiations were carried out between the management and the workers' collective under the previous managing director, where the situation has been more confrontational at the plant. The newly appointed managing director had apparently managed to settle the situation - or suppress worker resistance. A regional trade union official was also asked about the situation at Natural Drink, and he confirmed that there had been an attempt to establish a trade union in the company. However, according to him, "at that time the wages were good, and a part of the workers had no possibility to find a job elsewhere". A paternalist approach worked at that time at Natural Drink, whereas at the time of the fieldwork, paternalism persisted but the overall conditions had deteriorated.

In fact, the previous plant manager was relieved of his duties a few years earlier and replaced by a Nordic manager in order to enhance productivity, but perhaps also because the former was giving into the workers' collective's

requests to start some type of negotiations. Although Natural Drink was not a small company – it had 150 employees and that number was growing – the employer had managed to maintain a paternalistic relationship. It has similar assets as Medicament and Soft Textile (an efficiency-seeking workshop) – a location that made it peripheral in relation to union federations' strategies. The real cause for the quiescent workforce in the CEE countries (see discussion concerning state level by Crowley 2002; Woolfson and Beck 2004) may well be the lack of information about modern unionism as well as the absence of a point of contact with the union, as evidenced in the case of Medicament and Natural Drink.

Prefab was in the most interesting situation among the twelve case study companies with regards to trade union activity. In 2005, a management representative assured that there was no trade union, collective negotiations or worker representative at the factory. However, already at that stage, interviews with the workers pointed to diverging and controversial accounts: two of the respondents insisted that there was no trade union, one insisted that such an organisation did exist, and another respondent was in two minds whether a union existed or not. When representatives of the trade union federation were asked about this issue, it became evident that a clandestine organisation had been established at Prefab. The members of the union did not dare to promote visibility because they were afraid of the employer, and the federation collected membership fees directly. Nevertheless in Autumn 2005, one quarter of the workers had joined the union.

Although only a short time had passed since the plant was erected, there appeared to be contradictions between employee aspirations and the actual situation. Employees' responses at this factory were somewhat different from other companies. Workers' attitudes toward trade unions were first and foremost more positive than in other companies. Workers also aspired to agree far more collectively on wages, holidays, the length of working agreements, and safety issues than the current situation rendered possible. Union action apparently sought to resolve this gap between employee aspirations and the actual state-of-affairs. And the activists seemingly managed to succeed in raising the public popularity and profile of the union at the right time. The activity on the part of the trade union federation proved to be central to this, and the personal contributions of the trade union leader also played an important role.

Out of the four market-seeking companies, only two belong to an employers' association: Insulator and Natural Drink. Representatives of management mentioned that the main rationale of belonging to such an association is in order to gain information concerning EU regulation. By contrast, the manager of a subsidiary not affiliated to any employers' association explained why he did not see any real value of joining an association: "they [employers' associations] deal with wage issues as well as the rights of employees and employers... but as far as we have no problems in these areas, we have no need to belong to these organisations". It would seem

as though either employee or labour market pressure is a precondition for employers' association affiliation in the case of such companies.

The fact that employers' associations are not necessarily needed does not signify that employers do not maintain regular contact with one another. One manager referred to in an example above, for instance, is affiliated with the Chamber of Commerce of that country. The managing directors of Insulator and Profile Maker are members of a managers' club. Managers belonging to this club get together twice a year in order to discuss "hot" issues. They are "very intimate" and engage in a genuine cooperation with one another, reportedly with very little competition with each other since they represent different areas.

7.1.2 Employee participation

New participatory models – direct employee consultation, technical consultation, regular meetings of the entire workforce, annual or quarterly performance reviews, staff attitude surveys – were variably used in production line plants, except for at Medicament where a more paternalistic style prevailed. It is questionable whether these practices corresponded to the Nordic model, for these forms of employee participation were complementary to, or even substituting for, the trade unions. In the Nordic countries, information and co-determination are carried out in the framework of trade union institutions. The separation of a trade union's "task" (collective bargaining) from processes of information and consultation of the entire workforce was undermining the position of the trade union at Insulator. Commitment to the workplace was enhanced through a system of job rotation, personal development plans, individual wages and bonuses, and even employee share ownership.

The scope, frequency and timing of information and consultation⁴⁵ are essential factors when investigating the level of employee influence in companies. The management of **Insulator** held a workforce meeting each year, where workers were informed about any major changes in company structures. Still, when the company name or ownership changed, workers were not informed about this until the changes had been made. They had only presentiments that something would happen. In general it seemed that any consultation on *decisions likely to lead to substantial changes in work organisation* was not exercised or information disseminated to the collective of workers.

Insulator's workers were consulted through a single channel, the trade union, on wage levels, work safety issues and working conditions. The representatives of management (3 persons) met the trade union representatives (3 persons) twice a year in order to discuss economic performance, returns and investments. Wages were also negotiated, since this issue was not included in the collective agreement. Such negotiations began to be conducted once the trade union was formed, the management needed to determine how to proceed with the new situation.

⁴⁵ These two concepts were so often intermingled that in the analysis I regard them as more or less synonymous.

Insulator's employees started the process of selecting a representative for the European Works Council (EWC) in 2004, when the Baltic States joined the EU. A EWC representative was elected as the subsidiary had 150 employees at that time. The promptness of this decision was in large part due to the Nordic mother company's long tradition of involvement in such activities. At the election it was announced that everybody was eligible as a candidate for the EWC. A few workers put forth their candidacy. The elected person was an active member of the company trade union. By the time of the interviews, this person had participated only in two meetings of the EWC. The representative mentioned that participation in this body would pose a new challenge for the trade union and all employees, since from thereon after they would consider themselves "more like they are a part of a big company". Also, the representative of management insisted that the EWC would play a significant role in the firm's decision-making processes.

The representative of the management at **Medicament** reported that the workers were frequently informed about economical performance or changes in ownership structure. There were exceptions, however, when it came to changes in employment. At the end of the 1990s, a part of the workforce was subject to dismissals due to an economic crisis in Russia. The management decided who should be given notice, and then individually contacted those workers. The workers were not consulted or informed beforehand. There was a work environment council at Medicament with members from the production that held meetings twice a year. However, workers were mainly able to influence in their matters through their direct superiors.

Medicament had an existing EWC at the multinational level, but was unable to elect a representative from this subsidiary because of its small, sixty-member workforce. The representative of management recalled that the whole FSU area (Russia and the Baltic States) had one representative at the EWC a few years prior. This representative was selected from the Russian unit, whose deputy - proposed by the manager of Medicament - was elected from this (Baltic) unit. It is obvious that rank-and-file employees had neither any idea nor point of contact with the EWC in this enterprise.

Natural Drink informed its workers once a year about future prospects, in addition to disseminating various types of technical information within workgroups. One worker reported that when the previous plant manager was in office, information events were organised and workplace issues were discussed more often. Since the appointment of the new plant manager a year prior to the interviews, consultation processes had been individualised. The current management had made inquiries about employee attitudes toward working and labour conditions. The cited rationale behind these questionnaires was to support managerial decision-making. The new plant manager had initiated personal development discussions with intermediate managers and specialists once or twice a year. These discussions had later been extended to blue-collar workers with the production manager in charge of these talks. A representative of management insisted on the significance of workgroups in

terms of information and individual feedback, since it was difficult to find a suitable time to hold a general meeting due to differing working hours. More general information was also provided through the notice boards located staff room. In short, communication on the shop floor was reduced to technical consultation among one's work team, where information and feedback were individualised.

No EWC representative has been chosen from Natural Drink or from any other Baltic subsidiary. This is irrespective of the fact that the group has a representative organ with representatives chosen from Nordic countries. Natural Drink's management delayed establishing a EWC on the basis that there was no union in the Baltic subsidiary to initiate the procedure.

Prefab's management intended to introduce a practice of annual general meetings. Company culture was just emerging at this enterprise, where proposed human resource management measures had not apparently started functioning in full swing. At the stage of the fieldwork in 2004-05, however, the management did not yet consult the rank-and-file workers in important decisions. When it came to work processes, some employees were able to take part in consultations, voice their concerns and problems, and provide feedback. While the channels of consultation were still in the formation process, no forms of regular consultation were found in this factory.

There was a EWC in the corporation to which Prefab belonged, but this did not contain any members from the new EU accession states. The official reason for this policy was that the staff in these countries were not organised in unions, which made it difficult to nominate EWC members. An interesting detail is the fact that the personnel manager of Prefab had not heard that the company group had such a representative body during the time of her interview. This indicates that the EWC institution played a minor role in the operations of this company.

When summarising the *level of influence* on workplace issues, I have set the limit to the scope of consultation and information on the lines laid down by the EU directive, which entails the prerequisite to consultation *through representatives of employees*. Given this prerequisite, Insulator was the only production line factory having any sort of established information or consultation practices (Figure 7.1).

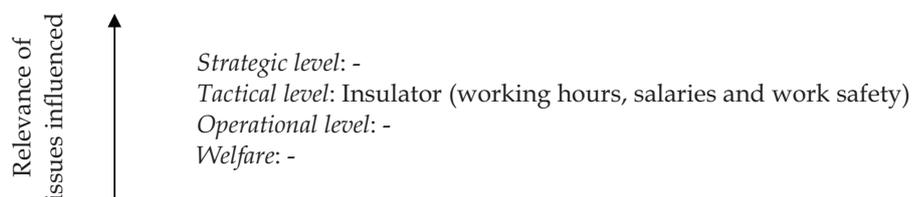


FIGURE 7.1 Level of consultation in production line plants

Given the relatively new production facilities introduced by Nordic headquarters, employees of the four production line plants enjoyed relatively good working conditions, but the chances for employee participation, let alone the opportunity for co-determination, were not afforded by the management of these market-seeking companies.

7.1.3 Workplace bargaining

Collectivism in wage bargaining seems to be much less common in market-seeking companies than among efficiency or resource seeking companies. In the former category, three-quarters of respondents ended up agreeing individually upon wages. This is a much higher proportion than in other categories. Workers at Insulator, Natural Drink and Prefab were largely in favour of collective bargaining especially when it comes to wages, although in reality wages were collectively bargained only at Insulator. Thus, the employers of these plants had managed to create a situation where individual competition over wages was encouraged. A worker at Prefab commented on this: "...where have you found a person who is satisfied with his/her wages? Everybody wants higher salaries. Life is getting more expensive all the time".

Insulator's collective agreement, which was concluded for the first time in 1999 shortly after the launch of the union, does not include wages. Wage negotiations were excluded from bargaining processes from the very beginning, whereas overall only minor changes had been made to the collective agreement ever since. A passage from an interview with one of the employee representatives reveals why wage negotiations have been lagging:

Interviewer: Do you carry out collective negotiations on wages?

Representative: Yes, [the negotiations] are starting soon. Collective bargaining and negotiations on wages will be held at the same time. Many enterprises are raising their salaries and we also have pressures to do the same. It is necessary to negotiate wages.

Interviewer: To negotiate... that they would be included in the collective agreement?

Representative: No, there is no mention of percentages of wage increases included within the collective agreement. Our local management cannot decide upon it, for the directors authorised to make these decisions are in [a Nordic country].

Therefore, a geographically distant manager is the only authority to decide upon the wages at a Baltic subsidiary. This kind of reasoning was also encountered at two efficiency-seeking clothing enterprises, Fabrics and Tailor. The fact that the same tactics are used at Insulator proves that the management is capable of obscuring and securing surplus value. This is despite the presence of an apparently pluralist management style, having originated in the clashes between employees and management at the end of the 1990s. The notion that the union is withdrawing its initiative in defining the frontier of control is consistent with what a representative of management told about the development of the enterprise union: "First they [the union] had a different target. They thought that they have to fight against the employer". Later,

according to the manager, the union came to understand that it would need to minimise confrontation and become a partner and ally of the employer.

During the interview with Insulator's management representative, it became clear that there were actually five different documents signed by new employees that are regarded equally in workplace relations: working agreement, collective agreement, internal rules of work procedure, work instructions and safety instructions. The question arises: what was the position of the collective agreement among these documents? Employees had to observe all the instructions and orders outlined by these documents. The collective agreement was, however, the only one that provided Insulator's workers with some benefits. At a minimum, these benefits were enlisted in the collective agreement: 30 percent wage premium for a worker who substitutes his/her superior along with his/her basic work tasks; social provisions for workers such as free days in the case of the birth of a child or death of a family member. Furthermore, items concerning qualification exams were included in the collective agreement. An issue worth noting was that some type of social payment was given to a worker in the case of a relative's death.

There were no special provisions for trade union members but only details of meetings with trade union representatives. Still, trade union members had other social benefits that were not outlined in the collective agreement: an option to use the union's facilities for one week's holiday in the summer, and a sort of subsidy in the case of an accident or sickness where government subsidies were not sufficient.

Wage negotiations were individualised - or wages unilaterally determined by the management - at **Medicament**. The latter was an example of a subsidiary in which the trade union dissolved and collective negotiations failed. The survival of the union could have jeopardised the management's pursuit for control over the labour process, although the ultimate reason for the collapse was a lack of support from sister unions (there were none in this region) and the federation (which was completely powerless).

When asked about his reaction if somebody else were paid a higher salary for a similar job, an employee observed that "no one knows whether somebody is paid better". This hints at a type of firm where salaries are relatively good compared to other similar companies in the vicinity, underlining a paternalist management style. And, in more quantitative terms, mean wages were the highest in the whole sample, with an average monthly salary of over 700 Euro. The employer was, indeed, generous when it comes to the salary, since employees were paid well over the national average.

Also at **Natural Drink**, the wages of certain workers seem to be quite high due to the fact that employees work so much overtime. Working overtime for better earnings has gained popularity amongst workers until recently when growing frustrations have been expressed. One employee, for instance, has had extremely long working hours for years, maybe even 16-20 hour shifts. Discussions have been underway to correct this situation, but the practice has been ongoing since this worker has had to substitute for absent or sick workers.

Another worker expressed a desire to spend more time at home, but is obliged to stay at work due to the need to replace other employees who are either sick or absent for other reasons. When discussing about long working hours, one worker commented: "that is why we need a trade union".

At Natural Drink, it was commonly asserted that wages were not usually discussed. One middle manager commented that the dissemination of such information might generate friction between workers. Natural Drink had introduced a premium pay scheme in order to *motivate* employees to work. In other words, the so-called 'value-added' component had been instituted. Thus, in exchange for a relatively modest salary increase, workers agreed to assuming duties that were additional to those tasks described in the work agreement.

At **Prefab**, the collision course against trade unions changed into cooperation in 2006, as the union-antipathetic managing director was given notice and collective bargaining began. The newly elected personnel manager acknowledged that the old management's attitude had been adversarial towards unions. It was a natural consequence that a round of bargaining started after the previous struggles. Also, the collectivistic attitudes prevailing among the workforce led to a rapid start in collective negotiations. The majority of the employee respondents were in favour of collective wage bargaining. The agreement had not yet been concluded in 2006 at the end of my fieldwork.

7.2 Efficiency-seeking textile manufacturing

7.2.1 Actors in employee relations

With regards to employee representative bodies, there were none at Soft Textile and a trade union at Fabrics and Tailor. Unions in these firms were at different stages of "maturity". Fabrics' union was in an 'established' position despite its difficulties in recognition and collective bargaining. It is hardly an exaggeration to suggest that Tailor's union was struggling for survival within a vicious cycle of decreasing union power and recognition. Not a single one of the firms had an obligation to establish a EWC due to the small size of the companies.

The employees of **Fabrics** have stood up for their rights on several occasions through trade union activity or general action that involved the whole working collective. The deteriorated conditions at the workplace and poor labour conditions have led to action. The employees' opinions about working conditions were explicit: it was really hot in the workplace, ventilation was not working properly, lighting was insufficient, and overall conditions had deteriorated. The payment scheme had worsened: previously, everyone had been paid for overtime, but now production workers had to perform the norm estimated to take one working day at a flat rate irrespective of the number of hours spent. The trade union was established soon after the production unit had been built at the site in 2001 "under abnormal circumstances" when the employees were unable to understand the terms of payment, or how many

hours had to be worked. Workers simply stopped working for a few hours and decided that they would set up a trade union. At the time of interviews, 40 percent of the employees were unionised. Around 50 members of Fabrics' union took part in a strike in Riga in 2005, where they demanded the minimum wage to be increased. It was unclear whether management supported such an action, but it would have been peculiar for the owner-manager to do so given his resistance against signing a collective agreement.

It looked like the age of trade unions had passed by unnoticed at **Soft Textile**: trade union activity did not seem to be familiar to the employees in the slightest. When asked an additional question, whether there is a trade union federation in the sector representing employee interests, the respondent answered that there is none. Although located in a small regional centre, Soft Textile is in the periphery when it comes to trade union influence in this Baltic State. This is due to the fact that the trade union federation has to concentrate its resources on the capital region and the biggest cities. Overall, an emerging union activity as observed at Fabrics was out of sight at Soft Textile.

Tailor's industrial relations provide us with an example of a downward spiral of trade union authority. At the time of the interviews, a fifth of the employees were members of a trade union, while ten years prior the unionisation rate had been 60 percent. The reason for the decline was, in part, the seemingly arrogant attitude of the plant manager towards the union, but also the failure in collective bargaining between the union and management ten years prior. Apparently, the local director had contributed significantly to the situation. According to one comment, the employer was "strict", put great demands on employees, and gave little room for the trade union to manoeuvre.

7.2.2 Employee participation

The provision of information and consultation was scarce at all three plants. The consensus amongst the interviewed workers was clear: they were not informed on decisions about production, the economic situation, employment, etc. There were only a few respondents to cite opinions contrary to this view. **Fabrics'** workers were provided information about changes in administration, wage systems or holidays. There were neither consultation processes nor proper employee involvement schemes in use. The trade union trustee was not consulted at Fabrics, although the shop steward was able to go to the director – in case she had "something to say", on the condition that the director was available and not in the company home country. The situation at **Soft Textile** was the most dismal: the representative of management confirmed that employees are informed only about what should be done or made, with no further consultation. **Tailor's** workers were kept informed about work, wages and internal rules. Employees usually gathered together during breaks for this purpose. Tailor's workers were consulted about working hours. Tailor's plant manager met with the shop steward when necessary. There was one cited instance where the manager provided the representatives of the trade union with an overview of the enterprise's expenditures. When asked about the

frequency of information dissemination at Fabrics and Tailor, the representatives of both factories responded "when necessary".

The participation level of employees of Fabrics, Soft Textile and Tailor with regards to consultation is illustrated in Figure 7.2. The conclusion is that only Tailor's employees were consulted on operational issues.

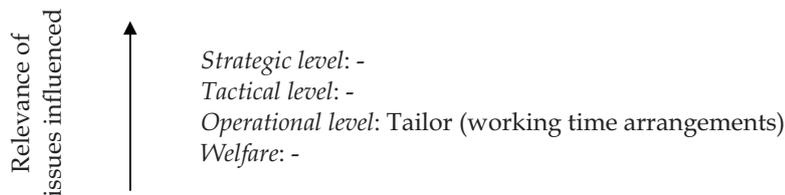


FIGURE 7.2 Level of consultation in the handwork-based companies

It is evident that this kind of production regime has led to a high labour turnover (see Table 6.4). It has been more socially acceptable to "exit" abroad than to use the "voice" avenue of employee participation – that the latter not being by any means promoted by the Nordic owner-managers. It is worth noting that the fiercest resistance to management policies was encountered at Fabrics, where Russian female labour formed a major part of the workforce. This leads to the tentative question of whether the Russian female part of workforce has less of a possibility to emigrate or whether it is more socially acceptable for them to take industrial action.

7.2.3 Workplace bargaining

At Fabrics, Soft Textile and Tailor, about half of the respondents reported that their salaries are negotiated collectively, and the same proportion desired this to be the case.

The collective bargaining efforts of **Fabrics** provide a sad story. A second round of negotiations was already underway at the subsidiary at the time of the interviews. The Nordic director had rejected the first trade union proposal. It consisted of some clauses concerning social guarantees, but the director simply refused to accept them. Therefore, neither the clauses relating to social benefits or the statements on wages were included in the second draft. The draft agreement focused on such issues as work organisation, holidays, provisions for relatives and extra payments. It appeared that the Nordic director, who usually worked at the Nordic office and occasionally checked in at Fabrics, was reluctant to sign the agreement even though it contained nothing more than clauses extracted directly from the country's labour code. The interpreter working for the firm and participating in the negotiations argued that the director was always busy and had little time for the negotiations. In addition to the union activity involving almost half of the workers, the whole working collective had appealed to the Nordic manager in order to raise the coefficient

according to which wages are paid. This did not result in any concrete action on the part of management.

At **Soft Textile**, employees were remarkably satisfied with their labour conditions – when compared to Tailor and especially to Fabrics – and there was no special desire for communicating or discussing similar issues on the shop floor. For instance, an interviewed employee claimed not to know others' salaries, which, she thought, ought to be similar.

The collective agreement had been in force for a short time at **Tailor**. A modest collective agreement that had been signed ten years ago – when the union was at the height of its power – was no longer valid. Wage rates were not mentioned in the agreement. The production unit had a fixed budget set by the headquarters, according to which all the expenses of Tailor had been determined. This greatly narrowed the scope of wage bargaining. The restriction had been made a few years prior when Tailor's wages were relatively good compared to other firms. Since then, the employer has managed to maintain a sense of competition amongst workers with regard to wages. It is symptomatic that from the beginning the Nordic owner's opinion had been that no binding written document was required. This was to convince the workers that if social goods were afforded to them, it was the employer who could be attributed to this, not the union.

The (failed) preparation for Tailor's collective agreement exhibits the core importance of coordination between the company trade union and the federation office. The union still sought to negotiate with the employer in order to continue the former collective agreement.⁴⁶ When the employer used his superiority during the negotiations with an inexperienced opposing party, the union federation could have stepped forth to participate. As irrational as it may sound, the co-operation between the local union and the regional centre collapsed due to the unwillingness of the company trade union representatives to send their draft by e-mail to the legal counsellor. Another option would have been to consult the adviser personally at the regional centre. Neither option was pursued, and the draft turned out to be as ineffective as described.

7.3 Efficiency-seeking engineering shops

7.3.1 Actors in employee relations

As to workers' representation at the three firms in this category, a variety of arrangements seems to prevail. There was a works council in place at Profile

⁴⁶ According to a regional trade union official with whom I spoke, the previous agreement should have been valid ever since it was signed. This is in case the trade union did not happen to sign another agreement with which they cancelled the collective agreement or started negotiations on a new agreement. The latter is obviously the reason why negotiations came to a standstill at Tailor.

Maker, robust trade unionism at Water Vehicle, and no representative body at Steel Works.

Profile Maker is an enterprise with a works council. The idea of establishing the council was put forth by management, and it is apparent that the body does not genuinely represent the employees' voice. The quality manager was in charge of the election procedure with the council elected for four years. At the time of the interviews, the management was taking steps to initiate collective bargaining.

When asked about the council, two out of four employees had a sufficient amount of knowledge to talk about it. One commented that "we just voted in the candidates", and the only information they seemed to have was related to the election results. The function of the body was entirely unfamiliar to the interviewed workers: "Maybe some function will emerge. But at the moment, it is of little consequence to me". A works council which is put in place of an enterprise trade union is not typically a 'Nordic' solution (Knudsen 2005, 5):

...the Scandinavian tradition of trade unionism does not cherish information, consultation and participation structures as central to interest representation in the same way as is known from the works councils' central position in Germany and other countries.

One could argue that the works council at the greenfield site of Profile Maker is run by the management in order to foreshadow the emergence of a trade union, as well as to adapt an instrument for the effective inclusion of elements of human resource management into the field of employee relations.

Workers at **Steel Works** did not seem to have any contact with unions at the time of the interviews. A possible explanation for this was the weak position of the metalworking union in this country. Union membership was not even an option for Steel Works' employees. Although they would have desired collective negotiations on labour conditions, they did not see any prospect of trade union activity. One employee commented on this: "I am in favour of unions, but I have never worked for a firm in which they have influence on anything. [...] If we had a union here, we would be better off."

Water Vehicle has undergone a successful transformation from the Soviet time to market economy, and the trade union has managed to survive. The union has experienced its ups and downs. The years following the Nordic acquisition were a period of substantial productivity for the union: representatives of the parent company organised meetings with local union representatives, where problems were resolved and union matters were brought to the fore. However, labour conditions deteriorated towards the beginning of the 2000s, when the union did not accept the terms proposed by management, and the issue came before state arbitration. In the words of the senior steward, the "battle" between the parties persisted for a while, with both sides recognising that there was work to be done. The case was resolved and an agreement was reached, with no such confrontations ever since. About 45 percent of workers were unionised at Water Vehicle. There were around 50 union shop stewards in the whole factory. The senior steward devoted a half of

his working time for union work, while the other shop stewards spent an hour of union-related activity a day.

There was another production unit that belonged to the same parent company as Water Vehicle but was located in a different Baltic country. Workers were also organised at the other plant. There was almost entirely a total lack of co-operation between the unions of Water Vehicle and its Baltic sister subsidiary. The only way these two tended to act together was to exchange general views and details of collective bargaining. The senior steward asserted that the labour conditions and the market situations were so vastly different between the two units that barely any regular contact was made. When asked whether the union at Water Vehicle had a closer relationship with the Nordic federation with which workers of the parent company were affiliated, the senior steward uttered: "Seemingly they [the trade union in the other Baltic unit] gain more advantage of it, and the connection is more important for them".

The interviewed shop steward stressed that the union resorted to its own funding with regards to office facilities, stationary, computers, coffee machines and so on. The firm stopped subsidising the expenses of trade union activity after the confrontation at the beginning of the 2000s. The shop steward cited a manager who had asserted: "If you wish to be independent, you will be." The employer did, however, continue to provide the premises for union officials.

Three of the four interviewed employees were office workers at Water Vehicle, and therefore far-reaching conclusions cannot be made about the shop-floor attitudes of workers. The best informant among the respondents was undoubtedly the only production worker that was brought in for an interview. He displayed a positive attitude towards the trade union, but did not regard it as necessary to join the union for he was "still young" and he had "no children so far". These comments crystallised the unionisation difficulties of young workers in the Baltic States. Many greenfield or brownfield factories – whether market, efficiency or resource seeking – often employed young free-riders or rationalists, who had nothing against trade unions but still had no incentive to join.

Water Vehicle's union was strong as such, and did not seem to need any help from the outside. This is why it decided to keep out of the national metalworking federation. Instead, it formed its own federation that, nevertheless, is a member of the central trade union confederation. In doing this, the company union proved able to utilise all the membership fees to fund its own activities rather than industry-level co-operation. This is a strategic issue: the rationale is that the union would only benefit the federation if it joined, but that this benefit would not be mutual - which holds true, in fact, with respect to the national metalworking federations in the Baltic States.

Both Steel Works and Water Vehicle were members of employers' associations, while Profile Maker was not affiliated. Water Vehicle was even associated to a few different organisations. The motives for membership in these associations did not differ from the product line companies. The

managers of these companies cited as key motives behind their membership the core importance of training, information dissemination and lobbying for legislation favourable to the industry.

7.3.2 Employee participation

Interviewed workers at Profile Maker were to a large extent the only ones to be informed about the subsidiary's employment situation as well as its economic and organisational development. Workers at Steel Works did not report a similarly positive situation: half of them claimed that no information was disseminated on such issues. The extent to which workers at Water Vehicle were informed remained relatively obscure (only one production worker was interviewed). However, the accounts given by the personnel director and senior steward suggested that information dissemination and consultation were mainly carried out through the indirect participation of shop stewards.

The management at **Profile Maker** arranged general meetings in which employees were shown figures about company performance and structural changes. Those workers who were specialised in the areas under consultation were primarily involved. Technical consultation was not only limited to particular workers. In 2006, a so called "Genesis-project" was introduced in order to optimise the production process. The management intended to invite all employees to a meeting in which the project was due to be launched. In addition to this, there was a type of suggestion scheme in place at Profile Maker, encouraging employee feedback and proposals for improvement of work organisation. A works council was elected, although no regular meetings were held between the management and council representatives. The works council served as a tool for human resources management, and it was not meant to become a body for employee participation.

A general meeting assembled twice a year at **Steel Works**, where "actual matters" were discussed. At Steel Works, *ad hoc* task groups were formed for improving performance, particularly for the "bottleneck" operations. The functions of such groups included technical, hygiene and personnel matters. This system had affected productivity and produced a "better self-feeling" among the chosen employees. Core employees took precedence over the rest of the workers in process development. The personnel manager affirmed: "those people who are involved in the process in question are asked". On one hand, these groups came close to *quality circles*, denoting small groups of workers (5-20), usually led by a foreman or senior worker who meet regularly to study and solve all types of production problems (Littler and Salaman 1984, 87). Such groups are intended to stimulate motivation and involvement among production workers, which indeed was the case with Steel Works. Contrary to proper "quality circles", the consultation meetings at Steel Works did not involve systematic training. The continuous improvement characteristic of quality circles and *kaizen* teams are all, according to Boxall and Purcell (2002, 169), classified as *task-centred problem solving groups*. Some highly qualified workers were heard more often than less skilled counterparts, confirming that

consultation was not equal to all workers. Processes of information and consultation were individualised, since these did not concern everybody and were based on direct participation.

Water Vehicle disseminated information to employees quarterly about its economic prospects, strategic plans and structural changes. Everybody was welcome to these meetings to raise questions about technical or other matters, but usually only 30-50 percent of the workers participated in these discussions. As to consultation at Water Vehicle, the senior steward met the plant director three times a week and put forward *operational* questions. Every-day problems were discussed at these regular meetings. Issues such as conduct of intermediate management, wages, bathrooms, working clothes were addressed. The senior steward informed the director about developments within the working collective. In cases where "indignation" was encountered, management usually reacted to this "sufficiently operationally". The tradition of face-to-face talks with the senior steward originated in the parent company. The senior steward asserted that the relationship had not always been uncomplicated: "I would rather say, we have a normalised relationship. Such a procedure started to function five years ago. The owners contributed to the fact that this activity was initiated".

The chapter concerning work safety in the collective agreement of Water Vehicle is relevant to the analysis of employee participation. The chapter specifies the jurisdiction of the *work environment council* and its functions in relation to the union. According to the labour code, the council is capable of monitoring working conditions, making proposals to the management, and participating in the working out of plans concerning company restructuring and technical improvement. The collective agreement at Water Vehicle did not provide the union with such consultation power as was afforded to the work environment council by the law. However, the collective agreement provided the union with the right to put an end to any activity that could endanger a worker's health, and to inspect accidents. These rights overlapped with those of the working environment council.

Additionally, the union together with management granted workers some compensation in the case of an accident. The collective agreement afforded extra holidays for employees working at health hazardous occupations.⁴⁷ In other words, the collective agreement at Water Vehicle prescribed that the work environment council (a potential threat to union authority in terms of employee voice) was subordinated to the union as it allotted a part of the council's functions to the union representatives. Therefore, Water Vehicle's approach came close to the Nordic tradition, with trade union representatives permitted to have wide consultation rights. It is interesting to note that Water Vehicle should have elected a EWC representative on the grounds of the size of the

⁴⁷ The annual extra holiday can be as many as 5-7 days. However, looking at the criteria for granting this holiday, one observes that compensation is given in proportion to the number of months worked on full-day basis with at least half of the working days under hazardous circumstances.

subsidiary,⁴⁸ but this issue had not yet been discussed. The personnel director had at least a rudimentary knowledge about EWCs, but in his opinion "it is such a recent and novel thing" in this country that he had not taken any initiative to organise an election.

All in all, the union in Water Vehicle seemed to be the best off among all the researched companies with regards to indirect participation. Still, there was a risk of "becoming yellow" at Water Vehicle, given the fact that the representatives of the management and the union had known each other since the Soviet time. In case work practices were not being carried over from the Soviet time, one could speak of a 'partnership' between the union and management. In more specific terms, a 'robust' partnership seemed to be in place at Water Vehicle, where the union collectively bargained wages, and workplace union representative(s) had a strong, legitimate position in the organisation and influence in decision-making (Oxenbridge and Brown 2004). But the fact that local management had remained more or less the same, indicates that the robust relationship originated from the Soviet organisation of work. The Nordic owner had not actively sought to change the management. Instead, the parent company had opted for the strategy of partnering with the union in order to shape labour relations to its liking. Irrespective of frequent meetings of the shop steward and the plant director, consultation reached its peak only on operational level. Figure 7.3 illustrates to the extent to which employees at the second-generation efficiency-seeking subsidiaries were consulted.

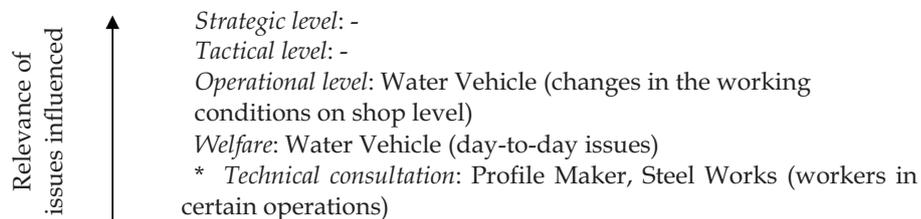


FIGURE 7.3 Level of consultation in the engineering shops

Overall, workplaces based on a male workforce seemed to perform better in terms of worker participation than the female-dominated workplaces. Male-dominated plants either had trade unions or they emphasised a segmented internal labour market within which central workers were consulted. In the non-union case study companies, where a managerial prerogative was prevailing, or in the unionised case companies with adversarial relations,

⁴⁸ In terms of the size of the corporation, Water Vehicle's main company was by far the largest among the researched companies: it had over 70,000 employees world-wide and subsidiaries in over 125 countries. With regards to eligibility for the EWC, there is a threshold of at least 1,000 employees within the EU, and 150 employees per unit in order to elect a representative. The subsidiaries (Water Vehicle and one more in the Baltic States) satisfied the requirements.

female workers almost invariably constituted the majority of the workforce. This raises the broader question of whether Nordic employers promote gendered patterns of employee participation.

7.3.3 Workplace bargaining

Interestingly, although wages and other conditions of labour appeared to be negotiated individually at **Profile Maker**, the interviewed workers tended to prefer collective forms of negotiation. With regards to wages, two out of four interviewed employees prioritised individual agreements whereas the other half expressed a desire to reach an agreement at the national or workplace level. It was hoped that issues such as holidays, working time, safety and health could be addressed exclusively within the worker collective or at the national level with labour organisations. Nevertheless, the works council at Profile Maker did not seem to serve as an alternative to individual bargaining. The workers were apparently indifferent toward the council, which failed to disseminate information to them about forthcoming opportunities for "collective bargaining".

The bargaining process was in its preliminary phase during the fieldwork in 2004-2005. The representative of management spontaneously asserted that the representative body was meant for signing formal documents. The question arises: was the collective agreement simply meant to be a formal document, consisting of clauses not even corresponding to worker demands? When asked with whom the collective agreement was about to be signed and what issues were to be included, it became clear that the personnel manager did not have sufficient knowledge on the matter to answer, and that there was a mysterious 'worker representative' involved in the procedure - who had virtually no function in the management-initiated project:

Interviewer: What issues will be included?

Manager: We are just about to start discussions about that.

Interviewer: Will the agreement be concluded with this representative only or with the whole collective?

Manager: There is a whole procedure related to that. Some meetings of the workers' council are held on a regular basis, they vote, so I could not even fully describe the whole procedure. What has been done so far is that we have this workers' representative. In reality, he doesn't take any action. We have no need for that".

Wage bargaining was individualist by nature at Profile Maker. Loyal workers showed their full support of the wages determined by management (hourly rates had been recently introduced). One worker's comment illustrates this: "the salaries must be determined somehow by the employer. It is unfair if one gets a better salary for a similar job". This is an elucidating example of how a worker lulled himself into believing the 'objectivity' of management. There was no possibility or desire to join forces with other employees, since the employer appeared to be the only "trustworthy" partner with whom to side. Furthermore, the internal rules of work procedure at Profile Maker explicitly

emphasised that it was the responsibility of the worker to remain loyal to the employer.

Besides the hourly wage tariffs determined by the employer, the superior of department had the right to give a wage premium to a worker once a month. The production manager had devised this system based on a continuous monitoring of worker 'competence'. Individual workers were rewarded in case the 'normal' competence level was surpassed. In addition to this means for keeping up employee motivation, the firm had introduced social benefits typical of collective agreements. Profile Maker provided 24-hour health insurance for its workers, which was indeed a significant benefit. Also, a certain sum of money was granted to workers whose family member had died. This provision is reminiscent of the terms of membership often provided by trade unions.

Due to the fact that there was no collective agreement at **Steel Works**, tariffs were not written down. In order to attract skilled welders to come to work, companies had to raise the upper wage levels. The deficit of qualified welders had resulted in an internal labour market at Steel Works and Water Vehicle. At Steel Works, the management sought to induce the workers to be discrete about their salary levels. There was a clause in the internal rules of work procedure urging employees to abstain from exposing confidential information about company operations, including the *grounds for wage payment and amount* (though this clause did not keep the interviewed workers of Steel Works nor Ingredient from revealing their salary). It is worth noting that the internal rules of work procedure were supplemented with the latter clause in summer 2003, denoting that a reason to include the provision emerged at this time. Such a policy may be due to the newly hired welders with generous pay packets, which would have caused jealousy among the other workers.

A valid collective agreement was in place at **Water Vehicle**. The process of finalising the agreement had required extensive efforts on the part of the trade union: negotiations usually took a few months. During this period, the parties held 5-10 meetings. During the negotiations, employees typically based their claims on the cost of the living index, while the employer based his argument on increased labour costs.

As far as remuneration is concerned, the personal coefficient similar to the Soviet-type KTU (coefficient of labour participation) typical of the brigade system, served as an efficient tool for controlling work outcomes. It is noteworthy that the trade union had formed an agreement with the management on the basis of this arrangement, whereby each worker's wage category was fixed twice a year on the grounds of variables such as qualification, work performance and work attitude. The shop foremen had the authority to make proposals of who might be eligible for a wage increase or deduction. The personnel manager expressed no doubt that the union had acquiesced within this system. Paraphrasing his words, "the trade union can also make merit of this, as it went over to the management's side". Usually there is a dozen workers out of 400 who are subject to wage reduction. Still,

under such a pressure, workers did not complain but rather complied with the state of affairs. As observed by the manager, the workers "are not satisfied, but they haven't protested".

With regards to the collective agreement, there was some repetition of labour laws concerning working hours and holidays (in fact, the agreement did not provide any supplementary provisions), and some repetition of internal rules of work procedure. The chapters dealing with wages, safety, employment and social guarantees were the most innovative part of the collective agreement.

The trade union of Water Vehicle administered a social fund for its members, which resembled that of Insulator's. A part of the membership fees was transferred into this fund. The fund granted the members material help in the case of the birth or death of a family member. The provision of social security was an important function of the union. This was confirmed by the interviewed worker who argued that he would join the union if he had a family.

The union had a voice with respect to collective dismissals. According to the collective agreement, the union was able to lengthen the period of notice by one month if 10-20 workers were dismissed, and by two months if more than 20 workers were concerned. This surpassed the provision granted by the law for employee representatives (the law grants only 30 days of postponing the period by which dismissals take effect). What is more, the agreement granted union members precedence to non-union workers with regards to re-employment within six months from the time of dismissal.

Wage differentials were an area of interest at Steel Works and Water Vehicle. At Steel Works, employees could earn double in one job compared to another. Even though the dissemination of information about salaries was forbidden by internal rules, the workers seemed to know each other's wages. At Water Vehicle, wage tariffs were subject to collective bargaining, but the highest tariffs provided three times a higher salary than the lowest one. It is noteworthy that the workers at both Steel Works and Water Vehicle ended up reaching agreements concerning wages at the desired level.

During the last rounds of collective bargaining, the wage gap between the highest and lowest tariff had increased at Water Vehicle. The company union seemed to abandon the ideal of egalitarian wage policy and the promotion of wage differentials. Between 2003-2005, the wages in the highest category had increased by 66 percent, whereas the increase within the lowest category had been only 22 percent. Whereas there was a twofold wage difference between the first wage category and the sixth category (the highest one) in 2003, 2005 was characterised by a tri-fold difference. As already observed, the perceived situation of negotiations corresponded quite well to the desired level of agreement at Water Vehicle. The question becomes: is the individualisation trend gaining ground in engineering shops similar to that in production line-based companies? Individual wage bargaining in line production has resulted in individualism on the shop floor. At Water Vehicle, it appeared that union

policy was heading for individualism among production workers, which was further evidenced by the increasing wage differences by means of collective bargaining.

7.4 Resource-seeking quota-based food processing

7.4.1 Actors in employee relations

Given its peripheral location, **Foodstuff** had remained beyond the sphere of influence of modern trade unions, though it had already started as a joint venture in 1991. A representative of employees was elected as part of an open election in 2003 (still it was unclear whether this was only a H&S representative or a trustee of employees).⁴⁹ This person had the responsibility of providing instructions for different work places at the factory. The representative was not afforded much discretion by the management, as confirmed by the production manager: "It is more about the fact that we have it on paper, that there is a person and sometimes he has to sign some papers concerning work safety".

Issues concerning trade unions were relatively familiar to Foodstuff's workers. Such arguments as "trade unions are backward-looking" or "in the current situation, being a member of a trade union does not bring any advantage" struck negative responses amongst the workers. Favourable attitudes towards unions stimulated further questions on the part of the interviewer:

Interviewer: Have you sometimes considered setting up a trade union here?

Worker: No, I have never thought about it.

Interviewer: Why, it does not fit here, does it?

Workers: No, it doesn't.

Interviewer: Would you like to join the union if there were one?

Worker: Yes, I would.

Ingredient was another company in this study – along with Water Vehicle – having managed to maintain its trade union from the Soviet time. At the time of the interviews, 50 percent of the workers were members of the company union. In terms of the union structure, there was a special *committee* with 10 members in addition to the head of the union. There were signs of a collusion between the interests of the management and the union. This was evidenced both by the act of privatisation and the willingness of the management to establish ties with the union. It is worth drawing attention to the fact that Ingredient's management took the initiative to get in touch with the company trade union and to reach a collective agreement. One possible explanation is that the management considered that employee relations would improve if the union

⁴⁹ A meeting with the whole working collective was held twice a year; in one such meeting, employees voted one representative out of three candidates as part of an open election three years ago.

were recognised. The activities of the previous owner (a local retail chain) had caused dissatisfaction among the employees, and the Nordic investor had not managed to gain worker confidence with regards to the conditions set for the acquired units.⁵⁰

This case exemplifies how product market strategies influence employee relations. Long-run strategies based on EU quotas are characteristic of quota-based production, which also leads to long-run strategic planning with regard to workforces. Long-term strategic plans may have positive consequences for the role of the subsidiary (as shown by the case of Foodstuff) or negative consequences (as in the case of Ingredient).

Ingredient's workers gave contradictory reports on the negotiation powers of the trade union, although three of the four employees interviewed were members of the union. Some type of frustration was expressed about the lack of employee influence on labour conditions. The response of one interviewed worker reflected a seemingly typical attitude towards the union: "The union only discusses matters, but [there is] no progress. One can achieve quicker results individually." It seemed as though the most recent round of negotiations did not turn out as expected by the workers. The contents of the 2005 collective agreement are examined in Chapter 7.4.3.

Ingredient's collective agreement contains a short excerpt mentioning the council of occupational safety and health issues. It is not obvious what role this council plays in the company, for it is the employer's responsibility to inform *the committee of the trade union* if accidents occur, in which case the reasons behind which are carefully analysed. However, members of the safety and health council have been allocated more hours annually – 96 hours – in order to fulfil their duties, whereas members of trade union committee have been given half this figure, 48 hours, to carry out their trade union duties (including seminars) within a year.

7.4.2 Employee participation

The data concerning information and consultation at **Foodstuff** are based on the interview with the production manager, which was sufficiently thorough to provide insight into the issues being discussed. Because I made the employee interviews at Foodstuff before adding the questions about information and consultation, I was not able to obtain their accounts of this issue.

The notice board at Foodstuff informed production workers about production figures as well as the basis on which wages are calculated. Nevertheless, the company had not provided workers with any specific financial data on the company. Information was also disseminated to the

⁵⁰ In 1999, when considering increasing its assets in the country where Ingredient is located, the Nordic investor required that one unit (not the same which was closed down in 2005) should be closed before it acquires a larger part of the shares. The local court had started bankruptcy proceedings against this unit for it to be closed, and therefore Ingredient's owner had a good reason to cease its operations. The case was closely observed in the media, while local people took action against the closure.

workers in general meetings. This was possible in such a small firm with only about 70 permanent workers. The representative of the workers was not engaged in information dissemination. The consultation of permanent workers of Foodstuff took place in late autumn every year. This consultation was of a technical nature, and was called "technical assessment". These events concerned mainly male workers, as a representative of management revealed:

Production manager: Each season [...] we make a big list of things what situation we are in, what we liked in our system and what we want to change and so on. During this technical evaluation we make a list of... the maintenance or small changes, maintenance costs and also the list of proposals for investments And then I make the list of proposals and start to work with the management, and then we decide on some investment project through which we want to change production this year.

Interviewer: Does this concern only a small number of employees, not all the production employees?

Production manager: No, it concerns almost all the permanent workers. But maybe not so many from the packaging department, we do not need every lady from there who is doing handwork, they cannot tell us so much.

At Foodstuff, there was a "quality group" that consisted only of managers, but if need be, ordinary workers were able to participate in a similar group within the framework of ISO9000. In this way, invited workers could be consulted, although this consultation encompassed mere technical issues or improvements in the production process. In other words, using the terminology of Boxall and Purcell (2003: 169), *task-centred problem solving groups* tend to be privileged in this form of consultation.

Workers of **Ingredient** gathered together once a year to receive information about future prospects, the situation in the EU, and wage issues. Interviewed workers at Ingredient replied almost unequivocally in the affirmative to questions concerning information dissemination about the company's *production, activities and economic situation, labour situation, its structure and development and decisions likely to lead to changes in the organisation or contracts*. Moreover, Ingredient was the only company within the research sample that could be regarded as performing co-determination as it is used and understood in the Nordic countries. In Finland, for example, the word co-determination has lately been associated with downsizing and the closure of production units, and that is why the word (in Finnish *yhteistoimintaneuvottelut*) bears a negative connotation. This is exactly what happened at Ingredient. The negotiations between the management and the union were aimed at developing a social plan in light of an evident closure of the unit, which eventually occurred in 2008.

The collective agreement opened up a rather ostensible possibility for employees to influence in company staffing. In the case of the dismissal of permanent workers on the basis of reorganisation of work processes or economical grounds, a commission consisting of representatives of the employer and the trade union has to be formed if the management's decisions concern more than five workers to be dismissed within a month. The commission, however, is not meant to assume any position in the *reorganisation*

or *economic situation* as such, but rather it is intended to discuss the situation and formulate recommendations in support of the individual workers to be dismissed. Nevertheless, this option resembles the Nordic practice of co-determination procedure.

Ingredient scores the best among all the researched companies insofar as employee consultation is concerned. The management carried out consultation talks when a daughter company of Ingredient was closed this year. Although the workers of that unit were affiliated to another confederation than Ingredient's workers, they had co-operation with one another. The closing down of one unit was included as part of the initial plan of the Nordic investor, and therefore this came as no surprise to the workers. With regards to the "social plan" proposed by the Nordic mother company for the workers of the closing unit, the trade union of Ingredient was also involved in shaping it. The trade union was not, however, genuinely consulted at the *strategic level* – which means about company goals, structure, investments, activities, mergers and closures – since these decisions were already made by the Nordic management at the moment of investment. Rather, the consultation occurred at a *tactical level* with regards to decisions about the social plan. Therefore, the company management defended its rights unilaterally to decide upon strategic matters – as was the case in the other companies – and took the trade union's opinions into consideration only when the consequences of the structural changes were examined. This argument was confirmed in the 2004 Sustainability Report, where collective dismissals were termed *organisational adjustment*:

It was unavoidable that we would have to say goodbye to some employees. This has been carried out in line with our standard approach to [...] employees – ensuring that everyone is given a fair redundancy deal where most have been able to start new jobs immediately after leaving the company.

The same report promised co-operation with local authorities, governments and *independent interest groups*, which probably meant trade unions. That is to say, the contact with the trade union in Ingredient may be considered as part of corporate policy.

Consultation on a lower level was more pronounced at Ingredient. Before entering into an agreement on work schedules, Ingredient's trade union had to be consulted. Therefore, consultation was being carried out at an *operational level*, which included decisions made at the department level concerning the organisation of work. Workers had been offered a possibility to participate in decision-making on health and safety issues. Through the elected *work safety committee*, workers could submit their proposals for the improvement of occupational safety and health. This practice had been in use only one year at the time of the interviews. Interestingly, a similar practice had been in use during the Soviet time. Unfortunately, workers had been relatively unenthusiastic about participating in the ballot, despite the offer to reward the best suggestion.

The management at Ingredient had initiated developmental talks with the middle-level management in 2004, and their intention was to extend such face-

to-face discussions to blue-collar workers as well. The second phase never materialised since the closure of the plant became clear quite soon. In the first phase in 2004, the plant manager called forth all the departments individually to discuss any problems. During the next planned phase, the director would have met with the intermediary managers, and the latter for their part would have arranged individual discussions with every worker.

Ingredient's working collective had elected an EWC representative. The union had organised the election, although the elected representative was not a member of the union. It was emphasised in the company that this person should know how to speak English, which may have been an irrational criteria for consideration during the election process.

Figure 7.4 shows the relatively favourable situation of resource-seeking companies in terms of level of influence.

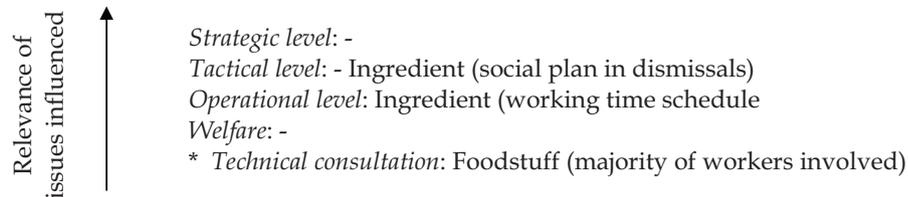


FIGURE 7.4 Level of consultation in the resource-seeking companies with seasonal work tasks

In short, participation at Ingredient resembles the 'robust partnership' pattern adopted at Water Vehicle (an engineering shop in which traits of Soviet work practices were also prevailing). Besides having a union density of over 40 percent, as well as collectively bargained wages, the employers of these two plants supported union activity if not recruitment access at new employee inductions (Oxenbridge and Brown 2004).

7.4.3 Workplace bargaining

According to the interviewed workers, a characteristic of **Foodstuff** was that employees hoped to agree on wages more collectively than they actually did. Although the interviewed workers were aware of the role and mandate of trade unions, the concept of collective agreement was not clear. For example, two respondents falsely insisted that such an agreement exists within their company. One of these respondents provided such a contradictory report on this issue that it could not be regarded as reliable information. The other interviewee's answer was much more unambiguous:

- Interviewer:* What issues are included in the collective agreement?
Worker: The responsibilities the workers have [to take].
Interviewer: Is it written or oral?
Worker: In written form. It also includes safety issues.
Interviewer: Can it be seen? Is it somewhere on the board?
Worker: No. It is [somewhere] on paper.

The discussion indicates that some kind of paper had been formulated, but it remained unclear with whom it had been formulated or entrenched. Obviously, the "paper" in question did not constitute a genuine collective agreement, since this same respondent later remarked that, on second thought, salaries, holidays, as well as the duration and permanence of the working agreement are negotiated individually – as was indeed the case in this company. This "collective agreement" evidently referred to some kind of documentation concerning occupational safety that the employee representative elected by the general meeting had been supposed to sign. Therefore, the term "collective agreement" within this connection referred to mere internal rules of work procedure.

Furthermore, it seemed that particular workers were favoured within the context of wage bargaining, that is to say, that the wages system supported the core-periphery polarisation within the company. There were anecdotes of foremen of the department appealing directly to the director to demand better salaries. There is cause for doubt that ordinary workers had as easy access to the director. There was a general consensus that wages needed to be agreed collectively, which may well be due to the fact that workers lacked the power to negotiate individually on this issue.

Prior to the Nordic acquisition, a valid collective agreement was in place at **Ingredient** until 1993. At that time, a local privatisation agency bought out the share capital from the workers and refused to recognise the agreement. The conduct of Ingredient's management is of particular interest, as it took the initiative of signing a collective agreement with the trade union in 2001 within a couple of years after the acquisition. This was shortly after the Nordic parent company expressed its desire to restore the management's relationship with the union. The agreement initially covered only trade union members, but in the second draft this was extended to all workers, and the third agreement in 2005 included amendments to employee rights at the workplace.

The fact that it was the management who actively sought to reach a collective agreement may be due to benefits from certain provisions of the collective agreement in this particular Baltic country. This would give management an opportunity to go beyond the Labour Code in terms of work and rest conditions, flexible working time, material liability and fixed-term working contracts. The following amendments to the terms provided by the labour code were included in Ingredient's collective agreement:

- The law does not allow temporary contracts exceeding two months to be made; Ingredient's collective agreement provides the employer with the right to conclude temporary contracts with its permanent staff for a longer period of time; this is due to the seasonal nature of work and consistent with the new wage system (see below).
- According to the law, overtime work shall not exceed four hours for each employee during two consequent days and 120 hours per year. Ingredient's collective agreement introduces aggregate working hours, which makes it possible to divide accumulated working hours into more than five months (the length of the

campaign work period), where the working time can be adjusted to the whole year.⁵¹

- The law allows the specification of administrative positions, in which overtime work is not taken into account, if the list of such positions is laid down in collective agreement. Ingredient has used this clause by enumerating 59 positions, which embraces virtually all the white-collar workers.

It was obviously difficult for ordinary workers to know where to stand in terms of wages in the new collective agreement – did the new wages system mean an improvement or deterioration compared to the previous conditions? The previous system was clearer in the sense that the tariffs (altogether 16 different wage tariffs) were specified in it. It also meant that the wage rate was higher during the on-season. The new system levelled off the wage differential between the on-season and the off-season period. The new arrangement was easier from the perspective of personnel management, for they were no longer forced to conclude separate contracts for seasonal period and off-season period.

Ingredient's workers preferred individual wage bargaining to collective bargaining, although these issues were to a large extent bargained collectively at the plant level. It was difficult to gauge whether the change from collectivism to individualism was rooted in dissatisfaction to the recently concluded collective agreement, where workers would have liked to restore the previous wage tariff system, or whether the source of discontent was that the union was not capable of bargaining sufficient wage increases. Either way, the management's intention was to individualise wage bargaining. A factor that may explain the reconciliatory attitude of Ingredient's trade union towards adapting new payment schemes might be the fact that local actors feared the factory would not attract any further investments. Under-investment on the part of the parent company was already noticed at Ingredient. No new machines had been installed, while extra dividends were paid in 2005 to the shareholders at the cost of reinvestment.

An interesting detail with regard to Ingredient's collective agreement was the fact that it was reached between the industrial union federation and the Nordic parent company. This arrangement was said to ensure that the local management would not change the agreement to its liking. A follow-up of the fulfilment of requirements was undertaken once a year at a meeting, in which representatives of the Nordic parent company also participated.

⁵¹ The equation calculating the salary goes beyond the sphere of conventional sociology: Average number of hours worked during the campaign * hourly rate with additions in campaign + (night hours * hourly rate in campaign) * 0,5 + (overtime hours in campaign * hourly rate with additions in campaign) * 0,5 + the norm of hours in the off-campaign period * hourly rate with additions in the off-campaign period = average number of hours worked during the campaign * basis hourly rate X + (night hours * basis hourly rate X) * 0,5 + (overtime in the campaign period * basis hourly rate X) * 0,5 + the norm of hours in the off-campaign period * basis hourly rate X.

7.5 Summary and discussion

This is a central analytical chapter, which examines employee relations at the Baltic subsidiaries from three angles:

1. Actors in employee relations,
2. Employee participation, and
3. Workplace bargaining.

7.5.1 Actors in employee relations

Although the research setting consisted of twelve subsidiaries, six of which were unionised, it was noted during the fieldwork that one non-union subsidiary had previously had a trade union after the collapse of the Soviet Union, and one non-union subsidiary (Profile Maker) had established a works council. Only three of the six unionised firms had managed to sign a collective agreement, which indicates that in the absence of sector-level agreements the Nordic investor seeks to determine labour conditions unilaterally, without giving concessions to the firm union. Equally noteworthy was the collective bargaining project at Profile Maker. Neither the constitution of the works council nor the process of collective bargaining proved to serve as channels of employee feedback and input but rather as devices for the management to define labour conditions unilaterally.

Water Vehicle, Ingredient and Insulator were examples of established trade unionism at the Baltic factories. Water Vehicle and Ingredient had trade unions originating from the Soviet era, while Insulator had some features resembling Soviet trade unionism. These were also the only subsidiaries in which a collective bargaining agreement was in place in 2006. Even these unions had to struggle for their recognition under Nordic ownership.

Among the market-seeking subsidiaries, there was one “success story” of company unionism at Prefab. Furthermore, Prefab constituted a case of an openly hostile attitude towards unionism on the part of Baltic management, but not necessarily on the part of the Nordic parent company. This plant underwent a rapid change in employment since its establishment in 2004, particularly as the union movement began to develop. The union was organised clandestinely due to a fear of dismissals. With the help of the local union federation, the working environment saw vast improvements and the anti-union managing director was eventually ousted. The union came into visibility and initiated collective negotiations in 2006.

While union recognition at Prefab was a prime example of Nordic-Baltic cooperation, the cases of Fabrics and Tailor were not as convincing with respect to cooperation between the national federation and company. In its initial phase, Fabrics’ union turned to the light industry federation for advice concerning the dismissal of union members, but this help never came. “We did everything ourselves”, the shop steward reminisced. In the later phase, the federation helped to formulate the collective contract, but the company union

seemingly felt alone when there was the most urgent need for assistance. Tailor's union had communicated with the federation level since the establishment of the company union, but had received little assistance; the federation gave priority to bigger companies. Also, wages at Tailor were relatively good compared to other firms, and there was not much room for bargaining. As per the above three cases, evidence suggests that latent antipathies existed among Nordic employers towards unions; this was not as obvious when the subsidiary was non-unionised, but the attitude became more apparent when a union emerged and sought recognition.

Why there was a spontaneous trade union movement at Fabrics, Prefab (greenfield investments in the 2000s) and Tailor (acquisition in 1991), but none in "older" brownfield investments such as Foodstuff and Natural Drink at the beginning of the 1990s? As suggested by Charlwood's (2002) analysis in Great Britain, the willingness of the non-union workforce to join a union increases with job dissatisfaction, left-wing views and union instrumentality. The combination of all these three factors better explains the tendency towards unionisation than any of these alone, although the perceived instrumental orientation of workers (i.e. the belief that a union would make workplace better) remains the best single factor to anticipate unionisation (*ibid.*, 482). Left-wing views are not very popular in the Baltic societies, but surely discontent with the labour conditions is a good explanatory factor for unionisation at Fabrics and Tailor, and also to some extent at Prefab. The collapse of the trade union at Medicament was associated with the workers' perception that the union did not make any difference, and thus the instrumentality explanation holds true. The union members of these firms expected the unions to clearly demonstrate that they stand for the workers' interests.

The attitudes of the interviewed workers towards trade unions in non-union subsidiaries varied between indifferent and positive. It was striking that negative attitudes were encountered among workers at unionised subsidiaries. The workers at Foodstuff were unanimously in favour of trade unions, although there was no union at the plant. Conversely, Profile Maker's workers did not seem to have any point of contact with contemporary trade unionism. However, some of them had acquired experiences with trade union activity at earlier workplaces. An interviewed worker expressed his views: "...the trade union was associated with the company. When I left the company, I left also the trade union. It is a good thing that I left [it], perhaps it has got authority abroad but here we only paid fees."

This is sadly true of much of the Baltic trade union movement. The trade union tends to be associated with the company, whether it is a company union originating from the Soviet time or it is newly established as in the case of Fabrics or Prefab. The success of company unionism is essential since federations have not managed to conclude sectoral collective agreements in the Baltic industrial sector. It does not pay off to stand alone as a union member, but rather a critical mass is required to gain leverage in negotiations. That is

why it is also essential that those firms with a trade union be able to conclude a collective agreement.

The geographical position of Foodstuff, Medicament and Natural Drink is peripheral. The national union movement does not tend to reach these areas and resorting to employer benevolence tends to be the only option. Consequently, the unitary non-union strategies of Nordic management are not always conscious union avoidance strategies. Union federations simply do not have the resources to reach all corners of the country. The existence of a union federation in the neighbourhood is a necessary precondition for ensuring the endurance of the company union, in addition to a positive outcome in collective bargaining. This observation is more related to the general nature of Baltic industrial relations, and not necessarily management-labour relations in the Nordic subsidiaries.

The significance of EWCs in providing Baltic unions with an opportunity for employee participation remains obscure in these subsidiaries. Insulator's EWC representative had not realised the benefits of meeting with colleagues from Nordic countries and having twice-a-year meetings with them; the only cited function of the EWC was its role as an information source. At Prefab, in turn, the EWC was working for trade union recognition in the Baltic subsidiary even before a representative had been elected from this particular unit. The link between the national trade union federation and its Nordic sister federation was crucial to this. The Baltic subsidiary's management underestimated the significance of EWC. It was symptomatic that the personnel manager heard about this representation body for the first time during his interview in the subsidiary - the managing director had not even mentioned this during the induction. On the contrary, Insulator's management seemed to be aware of the potential of EWC and was very active in organising an election. A third firm in which an EWC representative had been elected was Ingredient, but there the entire institution of EWC remained detached from union activity: the person elected for the position was not a union member (albeit being supported by the union members).

7.5.2 Employee participation

The term "employee participation" is meant to embody the notions of information dissemination and consultation, but at higher levels of influence also participation in workplace decision-making. Nevertheless, the latter form of activity is not characteristic of participatory systems at the Baltic workplace. Related to this is the practice of co-determination, characteristic of the Nordic industrial relations model - which had remained virtually overlooked in the Baltic manufacturing. One exception to this rule, however, was duly noted: the dismissal plan (called the 'social plan') at Ingredient was drafted after consultation talks with the union.

Where a union existed, it was used as a channel of information dissemination. At Insulator, the representative of the union mentioned that it was criticised of acting as a mere information channel and a catalyst for wage

bargaining, whilst the management determined other key issues (such as conditions of labour). This case may bear some resemblance to the 'shallow partnership' evidenced at workplaces with a union density between 6 and 30 percent (Oxenbridge and Brown 2004). As to Profile Maker, the works council did not have any role in information and consultation since it was subdued to the interests of management. Tailor's workers were consulted about working hours. Tailor's plant manager met with the shop steward when necessary. At Water Vehicle, consultation talks with the senior steward took place on a weekly basis, with a particular emphasis on important operational and welfare level issues. The senior steward also disseminated information from the workers to management in case 'indignations' occurred on the shop floor. The union-management relationship at this factory (as well as at Ingredient) was analogous of Oxenbridge and Brown's (2004) notion of 'robust partnership' encountered at workplaces with a union density between 40 and 90 percent, whereby the union has some influence on decision-making.

A core assumption of employee participation is that this occurs on a regular basis or has an established status in the factory. The direct participation/involvement methods used in the case study companies are illustrated in Table 7.1.

TABLE 7.1 Involvement methods in case companies (largely adopted from Hyman and Mason 1995)

Investment motive and nature of production		regular meetings	briefing groups	problem-solving groups	semi-autonomous workgroups	appraisal and development	suggestion schemes
Market-seeking production plants	Insulator	√				√	
	Medicament	√					
	Natural Drink	√	√			√	
	Prefab	√					
Efficiency-seeking textile manufacturing	Fabrics						
	Soft Textile						
	Tailor						
Efficiency-seeking engineering shops	Profile Maker	√		√*		√	√
	Steel Works	√		√			
	Water Vehicle	√				√	
Resource-seeking quota-based food processing	Foodstuff	√		√*			
	Ingredient	√				√	√

Note.

*) The management was intending to introduce this scheme.

The most salient feature was that no cases of semi-autonomous work groups referring to the existence of a flexible type of work organisation were found at any of the subsidiaries. *Ad hoc* task-centred problem-solving groups had been

made operational at Steel Works, and the management at Foodstuff and Profile Maker were also intending to introduce similar groups.

A complete lack of any form of direct participation at the clothing factories merits our attention. At Fabrics, the managing director was not readily or regularly accessible because he was based at the headquarters and only paid occasional visits to the Baltic factory. The company management organised meetings where workers were informed, for instance, about changes in management, wage schemes and holidays, but these meetings were held very rarely. In the words of the office manager, "actually we have not so many decisions" and consequently, it was deemed unnecessary to involve employees on a regular basis. The situation at Tailor and Soft Textile was analogous to that at Fabrics, where neither regular meetings nor any other employee involvement plans were commonplace. The only difference seems to be that while Fabrics' managing director was based in a foreign country, there was a local plant director at Tailor and Soft Textile. There were contradictory reports about the state of information and consultation amongst employees. Some of the respondents claimed to be informed and even consulted when new contracts were made, whilst others' opinions pointed to the contrary.

The remarkable absence of direct participation schemes at the clothing plants may be due to the 'family relations' typical of small firms, that is to say, indirect participation is practised via individual contacts. However, the fact that involvement schemes were not widely used in the process factories raises an issue of whether these manufacturers do not see a rationale for employee involvement, or alternatively, they do not regard their employees as a "resource" worth involving in decision-making. The fact that Medicament or Prefab, two market-seeking plants, are not offering employee participation opportunities, may be attributed to the subsidiary's small size and unofficial relationships (in the case of the former), or the increasing degree of indirect participation (the latter).

With regards to the level of influence on the grounds of *indirect participation*, the truth behind the line production plants was uncovered. It is noteworthy that the line production factories - with the exception of Insulator - were conspicuous in terms of their absence from Figure 7.5.

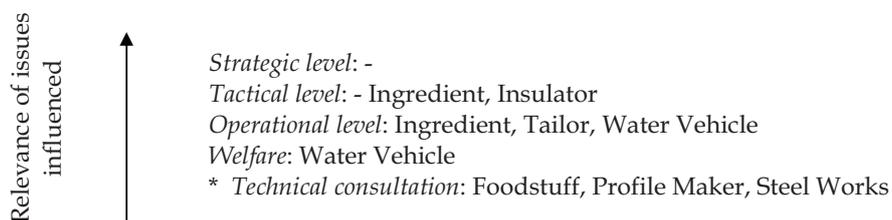


FIGURE 7.5 Level of influence (indirect participation) at the Nordic subsidiaries in the Baltic States

In other words, consultation was as scarce in the market-seeking subsidiaries as it was in the textile manufactories with regards to indirect participation. In

addition to uniting production line plants with the textile factories, the issue of indirect participation actually distanced these two categories from the engineering and quota-based work plants. One remark, however, should be made with regard to Profile Maker, Steel Works (engineering shops) and Foodstuff (quota-based production): technical consultation at these plants concerned only skilled 'core' labour while auxiliary workers were not involved in these 'task groups'. Therefore, the Nordic employer in the latter type of subsidiaries sought to create an internal labour market, within which individualised or decentralised wage bargaining would play a crucial role.

As we compare Nordic and Baltic environments with regard to employee participation, we can conclude on the lines laid down by Ramsay (1980) that experiments in industrial democracy served their purpose in the Nordic home country when it was necessary to meet labour demands 'half-way', but these 'fads' have to a large extent lost their relevance since the process was relocated to the Baltic States. When employers who cultivate flexible specialisation and positive-sum participation in the Nordic countries face the Baltic quiescent labour force, they tend to revert to the 'original' ideology of direct control and strict discipline.

7.5.3 Workplace bargaining

In the analysis I have emphasised recurrent patterns of management behaviour and employee relations. I have discerned such recurrence with reference to collective agreement and clauses of confidence with regards to wages. At Ingredient, the collective agreement concluded in 2005 gave the employer the permission to offer temporal contracts to permanent workers (due to the seasonal nature of work), utilise workers' overtime in a more flexible way, and specify administrative positions in which overtime is not counted. The law on collective contracts in this particular country made it possible for the employer to introduce these provisions, and Ingredient seemed to take full advantage of the possibilities granted by the law. The management in another company, Insulator, kept wage bargaining (although it is conducted through representatives of trade union) separate from collective bargaining as such, but has also drew upon the collective agreement to gain more flexible working hours. Profile Maker, on its part, seemed to have begun to develop the procedure of collective bargaining and works council in order to maximise the company benefits of the "flexibility" clauses allowed by the collective agreement in this particular country.

The fact that a collective agreement existed in one third of the case companies does not mean that the wages were collectively bargained. Four subsidiaries had signed a collective agreement, while in three of these firms the agreement was signed between the trade union and management, and in one firm between the works council and management. It was observed, however, that even in those firms where a collective agreement was in place, it was not self-evident that wages were included in the collective contract. Perhaps the strongest union in terms of negotiation power was at Water Vehicle, but a trend

in wage bargaining was discerned at this firm whereby the wage differential between the lowest and highest category had increased. Ingredient featured a strong union in terms of employee participation, but wage bargaining was based at the individual level, perhaps reflecting a sense of distrust about the trade union's ability to negotiate collectively. Insulator had an institutionalised form of collective bargaining, but wage bargaining was carried out as a separate activity. Profile Maker also undertook collective bargaining, but wage issues were also detached from bargaining processes.

Although wages were relatively high compared to many enterprises in the field, the gap between Nordic enterprises and local companies was narrowing in this respect. As one employee commented at Insulator, workers received a considerably higher salary compared to other companies in the industry following the establishment of the plant at the end of 1990s. However, the use of wage differentiation as employee retention strategy soon came to an end when wages started to rise rapidly in other firms as well. When the effect of this strategy ceased, the Nordic employer started to introduce other means, such as individualisation of wage bargaining and manoeuvring with the basis of payment. It was observed that half of the workers desired some form of collective agreement (taking place at the workers' collective or at the national level) - a trend common to all workers irrespective of the nature of work. Thus, the individualist trend seemed to serve the interests of management rather than employee wishes.

At small unionised firms, such as Fabrics and Tailor, collective wage bargaining collapsed simply because of employer opposition. In these cases, the union was kept aware of the option of relocating production to another country. At a medium-sized unionised firm, Insulator, the management claimed that the limits of wage bargaining were set up by the Nordic principal firm that had the sole authority to negotiate wage terms. This argument may have borne some truth in the sense that the Nordic management responsible for this unit controlled staff recruitment, for instance. All in all, the ultimate aim of the Nordic principal firm seemed to be simply to hold wage bargaining under control, and individualise the wage bargaining relationship. Obviously it did so with a view to utilise the "internal state" within the workplace to increase worker commitment on the one hand, but also to keep them under direct control on the other. The management-driven allocation of tasks and the individualisation of employment relations were ultimately aimed at consolidating an internal labour market capable of generating and safeguarding workers' consent to the workplace while at the same time redistributing conflict in a lateral direction (Burawoy 1979, 106).

Coming from the Nordic factory regime, I encountered a new realm of individual bargaining at Baltic manufacturing plants during the course of my research. Workers did not discuss their salary because of the potential "jealousy" of others, and engaged in direct bargaining with their employer as if they were playing a zero-sum "game". At the same time, the employer was successful in obscuring and securing surplus value. This led the employees to

understand that wages standards are only under the jurisdiction of the (distant) Nordic headquarters, thereby detaching the issue of wage bargaining from the collective agreement. In one case, this situation also prompted the workers to protest against the government when the minimum salary was not increased. Various other strategic methods were used to influence employee behavior as they sought to compare their salaries. A last resort by management was to include a clause in the internal rules of procedure forbidding discussion about wages, and some workers even took these regulations seriously. As employees were engaged in this “game” of concealing their wages and lining up against collective tariffs, they become unintentionally involved in obscuring the surplus value. Within this context, they managed to undermine the grounds of their participation in a genuine consultation, or even co-determination on workplace issues at the operational, tactical, or even strategic levels.

While one was able to discern distinct patterns of employee participation with respect to market, efficiency and resource seeking investment strategies, distinguishing between these strategies becomes more complex in relation to workplace bargaining. While the Nordic employer endorses particular combinations of direct and indirect participation, and in essence promotes group-based consultation along with direct communication, it unanimously develops individualist-style pay schemes irrespective of the nature of work. The goal of this strategy may be to weaken union power as the wages are thereby not included in collective bargaining, or to constitute the internal labour market as an internal regulation device to “divide and rule” the employees. In order to gain a deeper insight into these tactics, and to explore what is at the bottom of this development, one needs to go beyond the scrutiny of institutionalised forms of employee relations and undertake an analysis of the control over the labour process, which is related to the notion of the internal labour market.

8 TOWARDS A META-STRATEGY OF NORDIC FIRMS: CONTROL OVER THE WHOLE MANUFACTURING CHAIN

Their goal remains profits; their strategies aim at establishing structures of control at work. That is, capitalists have attempted to organize production in such a way as to minimize workers' opportunities for resistance and even alter workers' perceptions of the desirability of opposition. (Edwards 1979, 16.)

Control is perhaps the most commonly debated issue within labour process theory. The approach to control adopted by this thesis is perhaps best expressed through the term 'strategy of strategies' or 'meta-strategy', as illustrated in the excerpt from Edwards above. However, this approach can be more many-faceted and the reality more complex than this quotation assumes. Parent companies' strategies are not necessarily geared towards suppressing workers' resistance, although the features of the labour market have to be taken into account. It is at least equally important to consider the pressures from the product market, as this is more likely to influence investment decisions than any worker protests.

When focusing on product market pressures, it is necessary to shift from a macro onto a micro level of analysis, from investment decisions to controlling the local unit. Both can be regarded as levels of control as well as areas of strategic choice. To start at the level of the corporation, the manner in which the Nordic manufacturer approaches the Baltic labour force is closely related to the position of workers in the Nordic countries. This is set against the backdrop of the perception and treatment of workers as responsible and autonomous actors within the home country context. Furthermore, the 'frontier of control' between management and the labour force is examined at the plant level in terms of worker discretion, through an analysis of the occurrences of direct control and responsible autonomy at the workplace. Labour management at this level is also related to strategic choices. Reed (1989, 50) regards direct control (DC) and responsible autonomy (RA) as "alternative labour control strategies available to management in different economic, technological and social circumstances".

8.1 Corporation-level control

When it comes to the corporation level of control, or the quest to control the entire value chain, it becomes evident that the Nordic management is inclined to downgrade the role and position of Baltic subsidiary in relation to that of the parent company. Research and development, as well as sales and operations requiring higher skills, tend to be located in the Nordic headquarters or unit. Accordingly, it is observed that the organisation of the labour process is based on Taylorism in the Baltic units, whereas the labour process draws upon the ideal of flexible specialisation in the Nordic 'core'. Table 8.1 elucidates the entire Nordic production chain and its division of labour between the Nordic and Baltic regions with regards to the case companies:

TABLE 8.1 Division of R&D, sales, logistics and core production between the Nordic and Baltic units

industry \ location	the process in the (Nordic) core	the process in the (Baltic) periphery
construction material, food processing, pharmaceuticals	research and development (R&D) sales and logistics in some cases	line production
apparel	R&D, sales, logistics	manual work
metalworking	R&D in some cases; sales and logistics in some cases	engineering shops, some degree of R&D
food processing based on seasonal farm products	R&D; sales and logistics in some cases	line production (autumn season), maintenance and repairs (other seasons)

This illustration does not suggest a deteriorated position of the Baltic labour *per se*. The production process might have even been organised in a manner promoting job enrichment, job enlargement and job rotation in the labour-intensive end of the process.⁵² According to the findings, upgrading in this sense occurs to some extent in the processing and metalworking industries (the apparent job rotation in seasonal production does not necessarily imply 'real' job enrichment). Only a segment of the workforce tends to benefit from the possibility to upgrade skills or expand work-related tasks. I have mainly interpreted this as an intentional strategy of the Nordic management, but one can also discern some degree of determination of technology and work organisation – the metalworking shops seem to have a larger proportion of skilled professionals than the process factories. We can thereby simply conclude

⁵² Job enrichment and enlargement are terms that have been introduced by the work humanisation movement in the 1950s and the 1960s. The concept and paradigm of *job enrichment* originates in Frederick Herzberg's theory of work satisfaction and motivation. Early history of *job enlargement* owes to investigation of inadequacies of shift work by English human factor school after the First World War.

that the internal labour market is organised in different ways in different production processes, depending on how indispensable workers in certain operations are in regard to the whole production process.

The low position of peripheral labour is compliant with notions of post-Fordist production, particularly in textile manufacturing. The clothing company Benetton constitutes an almost archetype of flexible specialisation. There used to be a deliberate labour policy of segmentation at Benetton, in which skilled operations were handled in-house, and the less skills-intensive labour was exported and carried out by ostensibly artisan firms employing female labour (Wood 1989). In addition to reaffirming the superior qualifications of core workers, segmentation may also reinforce the tendency towards female low-wage labour and a return to the Fordist production model (Alasoini 1990, 61). There is a thread of discrimination running through the segmentation strategy: while smaller towns and cities are easier to maintain under direct control, in the urban labour market social divisions along the lines of skill, ethnicity, race and gender are used to exercise labour control (Jonas 1996).

The analysis of control over the spatially dispersed labour process also highlights the strategic position of Nordic parent companies. The peripheral unit in a Baltic country can remain isolated from the Nordic parent company in terms of labour conditions, while the subsidiary may still be under the strict control of the headquarters. The more isolated the unit, the easier it is to control. In the new era of flexible accumulation, the increased mobility of capital provides firms with an opportunity to increased control, whereby they can make decisions about relocation on the basis of the mobility of the process itself. The labour process under "globalisation" is spatially divided into different sub-processes with the labour's varying negotiatory and participatory rights. FDI also signifies greater control over the labour process in the Baltic subsidiary compared to a mere subcontracting relationship, as this also opens up the possibility for the Nordic headquarters to make a strategic choice. Accordingly, control over the labour process is strictly in the hands of the management at the Baltic subsidiary, whereas in Nordic countries, the labour force has managed to acquire more leveraging power in the sphere of employee relations through 'historic compromises'.

8.2 Plant-level control

The consideration of plant level of control, as well as the degree of autonomy and discretion afforded to the Baltic worker, underlines the corporation-level control analysed above. Although a few subsidiaries allowed some degree of discretion in job autonomy as well as an in-group allocation of work tasks, the overall impression is that not even the core employees in any of the subsidiaries were granted responsible autonomy. The respondents' interview transcripts pointed more in the direction of direct control. The most extreme form of direct

control was found at handwork-based factories. In subsidiaries where work was organised around the production line, metalworking shops, or seasonally changing work sites, the situation proved to be more diverse. Auxiliary workers were subject to more direct control while other groups including qualified specialists, welders and locksmiths benefited from a more relaxed form of direct control. In any case, the variation still occurred within the broad category of 'direct control'.

8.2.1 Market-seeking production plants

Although market-seeking production plants form a more or less homogenous category in terms of job autonomy, there is some variation, however, with regards to *job rotation*. Insulator has incorporated a rotation system into its training programmes. The firm promotes work-related training in different areas and tasks around the production line. The line has five standard levels, and everyone is expected to pass the examination in order to advance to a higher level. At Medicament there is only rotation from line to line in production, whereas at Natural Drink this takes place in packaging machine rotation and changes between machines of the same product type. At Prefab, all employees can complement or support each other within a group. There are 3-6 employees per group, and each group works around one table.

The allocation of work tasks (who makes decisions on the role and position of workers within the process) provides us with one indicator of worker control over the labour process. Insulator's workers can to some extent make decisions about their placement within the work structure, but the supervisor/manager determines whether (s)he can be promoted to a more advanced level. This matter was also under strict managerial control at Medicament and Natural Drink. In the former plant, the production manager or master assumes this responsibility, whereas in the latter either the plant manager or personnel manager provides directions on the matter. At Prefab, a joint decision is made by the master and group supervisor regarding the allocation of work tasks. All of this implies – with the exception of Insulator – that production line plants resort to unilateral management decision-making with regard to job allocation. It is also noteworthy that in all of the factories, the occurrences of job rotation and allocation closely correlate with one another. The more choice that workers are given in terms of job rotation, the more responsibility they are also given in terms of the allocation of tasks.

Insulator was an example of the considerable autonomy granted to workers, as evidenced through the indicators of job rotation and allocation of work tasks. However, at Insulator, it was the machine that determined the pace of work for line workers. The workers responsible for other types of tasks, such as filing, plumbing and loading, did not report on increased intensity or managerial control over work. It is remarkable that the worker earning the highest monthly salary (filer-locksmith, 510 Euro) and the lowest (line worker, 330 Euro) were the ones who wanted to negotiate wages and other conditions individually with the employer, whereas the two in the mid-income range

expressed a desire for collective bargaining (in essence the bargaining at Insulator was carried out through negotiations between the trade union and management). This may be a coincidence, but the desire to promote individual bargaining may be an intentional strategy on the part of the employer to develop an internal labour market. Therefore, the qualified workers who experienced the highest level of autonomy were addressed individually, whereas those with the lowest qualifications on the production line, and having little discretion of their own, continuously remained discontent with their collective tariffs. A striking similarity between the 'sophisticated consultative' case (the 'Process Factory') cited by Edwards and Scullion (1982, 49) and Insulator was that "trade union matters were limited to the wage rate and similar issues, and shop stewards were not used as the sole means of communication with the work force". This had significant consequences for the frontier of control observed at Insulator, where the union had a marginalising role in workplace issues.

At **Medicament**, the extent of job rotation was linked to tenure. Work experience of half a year opened up the possibility to work at two different lines, whilst a two-year experience implied the ability to work at five production lines. However, it was strictly the management's responsibility to determine who could be eligible to work at which line. At Medicament, the control of workers could be seen in its strict quality requirements, as well as in the confidentiality of salaries. Pay levels were relatively high. Nevertheless, workers had no exact information as to how much other workers earned. Thus, employee-employer relations were very effectively individualised, and there was also a sense of intensifying control. As one worker stated: "...more workers have been hired, but control has also increased".

Moreover, there was an obvious increase in managerial surveillance. Employees across all occupational groups reported considerably increased control over work results as well as work intensity. At Medicament, authoritative attitudes toward the workforce were explicit. For example, the production manager claimed that "superiors must know what to do" and "we rotate people with accuracy, but do not ask their views". These factories were seemingly aiming at *de facto* Tayloristic policy-making characterised by a sharp division of labour, mechanisation and a separation between conception and execution.

At **Natural Drink**, the Nordic plant manager was appointed to establish a strict control system at the Baltic subsidiary with the view to intensify production and promote "quality" of production at the plant. The new plant manager managed to create a working environment incorporating various kinds of measures and forms of control. For instance, senior masters were in charge of measuring the duration of every work process, whilst it was the specialists' duty to gauge the quantity of raw material that was spent and of that which was produced. All of this may have been a reaction to the inefficiency of 'management sovieticus' still haunting some Baltic workplaces, but in this case, managerial discipline was used in a very distinct way. As one

worker at Natural Drink reported: "all kinds of planners and spies have been hired".

Natural Drink is the most salient example of the intensification of the work process within this group. Two out of the four interviewed workers reported that the intensity of work has increased considerably, and three-quarters also gave accounts that physical stress had increased within the previous year. The reported increase in the control of work results is linked to this phenomenon. However, support from one's direct superior and the possibility to utilise one's professional skills has also remarkably increased. The latter factor may serve to increase employee motivation and effort in exchange for the intensification of work, which seems analogous of the "making out" where workers generate their own consent (see Burawoy 1979).

According to an interviewed worker at Natural Drink, a meeting had been recently held between the entire workforce and the employer. During this meeting, employees were informed about their responsibilities, and in return they were invited to put forth work-related proposals of their own. Ever since the meeting, the interviewed employee had "at least tried to fulfil" the role outlined by the employer, and she also believed the reverse to be true. This kind of attitude can be construed as a 'psychological contract' based on compliance between the employee and employer. The meeting was not meant to act as a genuine consultation since the working culture remained unilaterally under managerial command. Rather, it can be argued that the workers confronted a more managerially determined factory regime while withdrawing their previous initiative (under the previous managing director they carried out collective negotiations) from defining *apparatuses of production* (see Burawoy 1985, 8).

Prefab merits attention in terms of job autonomy. It should be noted that this factory had been established on a greenfield site a year prior to the interviews and consequently the workers might not have expressed any opinions about the changes in work-related variables. Nevertheless, an obvious sense of contentment to the prevailing situation was discerned during the interviews, suggesting that no intensification or increase in control was occurring at the plant. Also, employees were able to influence their work tasks and pace to a considerable extent. Some signs of the 'brigade' system specific to the Soviet production model were seen in the organisation of work. In cases where the mean age of the workers was not very high (workers were mostly between 25-35), this pattern was not necessarily a direct inheritance from the Soviet period. However, there were some indicators in the job design that implied a type of job autonomy similar to that of the brigade system. In production shops at Prefab, workers were able to complement each other. There was a lot of tailored work, which required craftsmanship. Due to a wide variety of orders, there was no option for simple standardised production. In other words, the work design implied high job autonomy similar to that of the Soviet 'brigade' system. In contrast to Insulator, where workers had varying positions

in terms of job autonomy, production workers at Prefab seemed to be more or less on equal footing.

The story of trade unionism at Prefab underlines how indispensable the workers were in the labour process. The emerging trade unionism on the shop floor occurred somewhat 'beyond the control' of management. It was discerned from an interview with the newly appointed personnel director that the plant expanded so rapidly that the management was not able to keep track of the development of employment relations. In fact, management barely had sufficient time for proper follow-up of the recruitment of employees. The fact that the Nordic owner at a later phase dismissed the Baltic managing director was yet another indicator of the power of the workers' collective, since this event at least partially resulted from pressure from the shop floor.

When comparing handwork-based and production line companies, a clear distinction can be made with respect to changes in the intensity of work and work pace, the control of work results and the possibility to use professional skills. In this category, the control of work results had increased considerably or to some extent for a half of the respondents during the previous year. However, the possibility to use one's own skills had also somewhat increased for half of the workers. What is most striking is the fact that half of the respondents in this group regarded the intensity or pace of work as considerably increased, in addition to which a third of respondents saw that intensity/tempo has somewhat increased. Is this phenomenon a part of a longer-term trend in this kind of company, or had this only occurred over the course of the previous year? Some comments made by the workers seem to indicate that this trend has been continuing in the course of previous 3-4 years. Has the competition between enterprises seeking to conquer the same market resulted in an intensified labour process?

The findings further suggest that the increase in the intensity of work is intertwined with other perceived ills and shortcomings at the workplace. Although we must keep in mind that very far-reaching conclusions cannot be drawn since a representative sample was not possible, evidence for the findings can be obtained within the data, in the responses to other questions. Workers were asked to what extent conflicts between superiors and employees or between employees themselves, as well as internal competition/rivalry, occur at the workplace. The respondents in this category once again reported high levels of workplace conflicts, competition and rivalry compared to handwork-based textile firms, engineering shops and seasonal quota-based production. A third of the respondents reported that disagreements between superiors and employees, as well as rivalry and internal competition, occur a lot or quite a lot at their workplace.

8.2.2 Efficiency-seeking clothing manufactories

A low degree of *job rotation* exhibited by the apparel factories clearly points to the use of Tayloristic work organisation. There was a cited intention to implement a job rotation system at Fabrics, although these intentions were not

put into practice. The whole concept seemed to be unfamiliar to the management of Soft Textile. At Tailor, an in-group rotation was adopted – workers were able to substitute for one another. The rationale for rotation was, however, not job enrichment but rather job ergonomics. Each worker was able to carry out ten different operations, whilst 50 operations were altogether required for the production of one garment. An analogous trend was discerned with respect to the *allocation of jobs* as was observed with respect to job rotation: there were no signs of worker discretion afforded by management, and the latter two activities were solely carried out by either the production manager, supervisor or master of these factories.

Measures of strict discipline were seen widespread in the clothing case companies. As far as **Fabrics** is concerned, it was observed that in 2006 a major proportion of the needlewomen worked around ten hours a day although the piecework was measured to take eight hours. There were eight supervisors controlling, teaching, and monitoring production and quality. In addition, every worker was required to record in a diary how many pieces s/he has made each day. This strict mode of control was precisely intentional on the part of management. When asked whether the system causes competition between workers and whether this is part of an intentional strategy, one of the managers replied: “girls have to prove their effectiveness”.

Strict control was also observed in the job design. There were neither assembly lines nor other complex machines setting the pace of work, since surveillance was taken care of by means of work flows, group control and individual measures set by the piecework system. The pay system in Fabrics was seemingly based on *standard allowed minutes* (SAM),⁵³ known in the US to reduce the total labour time required to produce each item in the apparel industry (Appelbaum et al. 2000, 71). A similar system, although not as strict as at Fabrics, was also in use at Tailor and Soft Textile.

The management-employee relationship at **Soft Textile** cannot be characterised as being purely autocratic, but rather it is similar to that which Scase (2003, 482) calls “indulgency patterns” or “high trust relations between small employers and the staff.” This relationship was seen in several occasions. For instance, during my process of conducting interviews with the employees, the latter tended to occasionally ask appropriate answers from their line managers. The place where the interviews took place was thereby problematic since it made this conduct possible. What makes this company different from

⁵³ Appelbaum et al. (2000, 71) describe SAM in the following terms: „Engineers calculate how many seconds a typical worker should need to complete each task. Then the required seconds for all of the tasks are added to compare the SAM for each garment. The SAM calculations are used to compute the piece rate for each task. The firm sets a target hourly wage for the plant and computes the payment for each task as follows. First it divides 60 minutes by the SAM to calculate the number of pieces that can be produced in an hour. Then it divides the target hourly wage by that number. If the target hourly wage is \$6 and the SAM for the task is 2 (minutes), then payment for the task is twenty cents, or $(\$6/[60 + 2])$. Fast workers will take less time than the SAM to complete a task and therefore earn more per hour than the target wage.”

the other two apparel plants in the sample is the fact that the workers never even intended to set up a union, although labour conditions left a great deal to be desired. The employer had found an environment that was less than conducive to union employment: despite the 'indulgence' factor deriving from the dependent position of labour, the locality was so peripheral that it remained out of the sphere of influence of the light industry workers' federation. This was indeed also a fault of the federation policy: the latter was prioritising enterprises in the capital and the largest cities, leaving peripheral companies to their own resources.

Soft Textile was an illuminating case with regards to workers' consent to the workplace. This tendency was seen in the interview transcripts. All of the respondents expressed a sense of satisfaction with the workplace, and no cases of conflict, rivalry, mental or physical stress were reported. Meanwhile, there was a higher proportion of respondents unwilling to answer the research questions. The interviewed workers seemed to side with management. For instance, two of the respondents asked the master or the sales manager, as s/he accidentally or intentionally came into the room in which the interview was taking place, for assistance on how to respond. Some statements of the respondents cannot be regarded as reliable due to these circumstances. Such consent was not encountered at Tailor, let alone Fabrics.

An overall sense of surveillance became evident through an examination of the design of the shop. Typical of such factories, there was no partition between working desks in the shop, and all workers were entirely subject to peer control. At Soft Textile, there was even a large window between the managers' office and the sewing shop. This could be seen to reinforce feelings of 'unity' and 'one family', although this in fact served as a concrete token of the control regime. In principle, job rotation existed between cutting and sewing – the jobs with the best salaries and requiring the highest qualifications – but as the managing director put it, this was "not exactly" job rotation *per se*. In fact, the personnel manager had the ability to make unilateral decisions about job allocations.

At **Tailor**, it initially appeared as though genuine job rotation was in place, since jobs were rotated within a group. Workers were supposed to deal with ten different operations, while the production process consisted of more than 50 single operations. However, the rationale behind this rotation was not to promote in-group job rotation or a higher level of job autonomy. Rather, this was based on the quest for better ergonomics – sewers were able to perform better as their job did not only involve routine, monotonous tasks. Yet the fact that the master determined the allocation of jobs undermined the idea of job 'enlargement' on the shop floor. Subjective employee assessments further reinforced their limited influence on job tasks. Overall, the level of worker influence was much lower at Tailor than at Soft Textile, but somewhat higher than at Fabrics.

A distinctive feature among the interviewed workers of Tailor was the fact that none of them knew each other's salary. A commonly cited reason behind

this was the fact that "we are not used to speaking about it" or "this would provoke terrible envy among the employees". The workers at Fabrics and Soft Textile insisted that "salaries must be more or less the same", which meant that the communication culture at their workplace allowed for some discussion about this issue. There was no potential for collective action for wage increases at Tailor under these circumstances. Workers appeared to be unwilling to become engaged to this type of action or they were tactful because of the "envy" of others. Workers at Soft Textile tended to rely on management's goodwill and impartiality with regards to the determination of wages. The situation at Fabrics was entirely different: due to continuous conflict between the employees and employer, workers discussed wages in and amongst themselves and did not rely on the good intentions of management.

A Taylorist use of labour was commonly found amongst firms characterised by a strict control regime. Respondents reported an increased intensity of work, which in turn was directly linked to the management's rhetoric of competitiveness and efficiency of work. In words of the manager, the company would not be competitive enough if wages were to rise, in which case the production would have to leave the country. Particularly subject to competition between different locations were light-industry plants, in which the majority of workers were women. Perhaps the use of female labour in the Baltic periphery constituted an easy option for the Nordic industrialist, since Taylorism was also the prevailing model in general, and for peripheral workforce in particular, during the Soviet era. Taylorist methods in the use of labour may prove robust in enterprises because they provide an effective means for social control or they simply fit the conception of the work organisation borne in job engineers' minds (Alasoini 1990, 54).

The main difference between the style cultivated in Edwards and Scullion's (1982) case study, or the 'Hosiery Factory', and the clothing companies in this research was that in the former management not only recognised the union but actively encouraged workers to be members. Meanwhile, at Fabrics and Tailor, management undermined the union by refusing to sign a collective agreement. However, analogously to Edwards and Scullion's (1982, 44) study, "management expected to take decisions with little or no consultation with the shopfloor and to be able to deal with workers as individuals and not necessarily through union representatives". This approach remarkably resembles that which was adopted by the management of Fabrics and Tailor, indicating direct control.

8.2.3 Efficiency-seeking engineering shops

A special feature of engineering shops was that employees had a considerable degree of autonomy in terms of the pace of work. Furthermore, a very relaxed pace was observed on the shop floor during visits to the shops of Water Vehicle. However, according to one respondent at Profile Maker (production worker) and one at Water Vehicle (welder), the intensity of work had increased

considerably, whereas the control of work results had also somewhat increased. Other workers did not report on any particular increase in intensity or control.

With regards to job autonomy in this category, an important finding was that the workers' influence on their work pace is significantly higher than their influence on job tasks. As the validity of the answers of the eight blue-collar workers can be considered to be quite high – the remaining four either did not answer or they were white-collar workers – all reported that they were able to influence job tempo, with three claiming that they could influence it “a lot”. Amongst these eight workers, however, there were none who could assert a significant influence on their work tasks. Two of the respondents (CNC operator at Profile Maker and welder at Steel Works) in fact reported that they had no influence on their work tasks at all.

In addition to these reports, it is also essential to explore what accounts the managers give of job rotation at the factories. At Profile Maker, the only form of *job rotation* – in my view this was mainly about promotion – was the ability for any worker to upgrade or raise his or her qualifications. This certainly does not correspond to the core idea of job rotation, which is about job enrichment or enlargement rather than simply moving onto better positions. No explicit answer was provided to this question at Steel Works, although the managing director emphasised the company's efforts to motivate workers to acquire a more wide range of skills. This suggests that job enlargement was to some extent possible at the factory. As a matter of fact, as implied by the lack of worker influence on work tasks, the subsidiary management appeared to turn a blind eye to genuine job enlargement and enrichment. The situation at Water Vehicle was not much better, either. When asked about job rotation, the first fact recalled by the personnel director was that welders and locksmiths are able to substitute for one another during summer vacations, where transfers between shops are also possible. Furthermore, job exchange seemed to be possible between the Baltic units and a Nordic unit within the corporation, although there did not seem to be any systematic rotation of jobs within the work process itself.

The managers' accounts of the *allocation of work tasks* reveal that the engineering shops (and other categories of production as well) are still far from what Scandinavian employers allow for their subordinates. Production based on real 'team work' or work groups remained unknown at the researched plants. As to the dynamics of work groups within the Nordic workplace, the internal division of labour is voluntary, and the group is responsible for the selection of its leader and members as well as the leader of the group (Frohlich and Pekruhl 1996, 86). Whereas this Scandinavian model is becoming more and more idealistic within the present-day context, it still serves as a backcloth against which the behaviour of Nordic employers can be investigated. By contrast, in the Baltic countries, the ideal of the Nordic manufacturer seems to be unitary managerial discretion with regards to the allocation of work. At Profile Maker and Steel Works, a foreman or production manager was always

in charge of dealing with job allocation, whereas the shop foreman was able to make such decisions at Water Vehicle.

Profile Maker shares some characteristics with the 'sophisticated consultative' managerial style described by Edwards and Scullion (1982). In addition to Profile Maker, Insulator (a production line factory) also came closest to the UK process factory in terms of work organisation and workers' consent to the workplace. However, there was still a far cry between these factories in terms of job design, autonomy and the organisation of consent. That is to say, direct control was preferred to responsible autonomy at the two Baltic plants. A uniting feature between Profile Maker, Insulator and the UK process factory was that a system of time rates had been put in place. Another similarity was what is described by Edwards and Scullion (1982, 49) with regard to the 'Process Factory': "Managerial philosophy revolved around the idea of avoiding the 'them and us' attitude which was felt to bedevil much of industry. [...] part of this philosophy involved treating workers as responsible people." This was exactly what was pursued at Profile Maker.

All in all, characteristics of direct control were seen in the forms of bureaucratic control carried out by means of internal rules. The General Manager of this firm seemed to exercise the ultimate authority to decide upon workers' relationships with other organisations (this probably also applied to trade unions) as far as internal rules were concerned:

It is forbidden for our employees to work at other enterprises, organisations, to give them consultation or take part in their work without the written approval of the General Manager; it is forbidden for the employees to use their work time, or property of the enterprise, to carry out personal tasks not related to the work or mandate of the enterprise.

The sheer organisation of production at **Steel Works** allowed workers to have a greater level of discretion than in the rest of the firms, although another example of this might be Prefab (a line production plant described above). At Steel Works, the production process was far from automatised due to the fact that the parts produced in the shops differed to order (see Appendix 4, Figure 9). That is to say, one 'universal' shop produced items for specialised shops, and the latter in their turn assembled, welded, painted and controlled the quality of the items. However, during the interviews, workers claimed to have little influence on their work tasks in contrast to a significant degree of discretion regarding their work pace. According to the managing director, the majority of workers had flexible skills, and the firm encouraged workers to acquire more skills.

As far as work organisation was concerned, employees at different shops participated in the technical improvement of the processes. The interviewed employees reported a modest level of control at work as well as intensity of work, although one respondent reported increased physical stress. On the one hand, there appeared to be some analogies to responsible autonomy (with regard to work tempo). On the other hand, one is left under the impression that

given the system of direct control, workers had little discretion in work tasks, as evidenced through the lack of employee impact on job rotation and allocation.

At **Water Vehicle**, where the production of large blocks of vessels took place in specialised shops, the interviewed welder reported high levels of influence on job tasks and tempo but quite controversially, also an increased intensity of work, physical and mental stress as well as control of results. The race to reach the necessary monthly performance levels conveyed this idea of intensity and control. As previously mentioned, the analysis of job autonomy at Water Vehicle lacks sufficient evidence, and therefore far-reaching conclusions cannot be drawn about this factory totalling 700 employees. One account out of 700 obviously provides little more than anecdotal evidence on the issue. Still, there is strong evidence pointing to the workers' collective power as far as Water Vehicle's trade union is concerned. This makes it possible to draw conclusions about control over the labour process and the 'frontier of control'.

There are apparent parallels that can be drawn between the mode of control practised at Water Vehicle and the 'traditional negotiatory' managerial style evidenced in the UK. In their case study on a British metalworking company, Edwards and Scullion (1982, 22) found that the control had shifted more in the direction of the shop-floor in its plants compared to case firms coming from other industries. Shop stewards had significant control over all aspects of wage-effort bargaining, planning of work, job allocation and rotas of overtime. No remarkable difference was found in the degree of control in this sense between Water Vehicle and the British metalworking factories. It is worth noting that the former had reverted back to a system of piecework rates, whereas the latter had again changed from payment by piece system to hourly rates. However, a 'piecework mentality' had persisted despite the recent transition from a piecework system into a measured day work system insofar as the British case is concerned. At Water Vehicle - in the words of the personnel manager - workers wanted to return back to the piecework system, since it provided them with higher earnings.

One cannot expect that cheap labour would become insignificant even in occupations demanding more highly skilled labour. Rather, wages are likely to continue to vary greatly within plants. Therefore, methods of individualisation are also required in this type of work organisation, at least to the extent that was seen in the case of production line plants. A greater level of trust is desired, but not necessarily achieved in these companies, when a certain degree of leveraging power is offered to the employees.

8.2.4 Resource-seeking quota-based food processing

It seems that employees working for the food processing plants characterised by seasonal tasks generally enjoyed greater job autonomy than those in which work was organised around production line or engineering shops, let alone textile manufactories. This was true with regard to worker influence on job tasks but not on work pace. However, the variation between companies and occupations was wide, and far-reaching conclusions on the basis of such a small

sample should be avoided. In this respect, the two resource-seeking subsidiaries presented here constitute exceptional cases. The interviewees at Ingredient experienced the highest degree of autonomy in deciding upon their work tasks, whilst the reverse could almost be said of employees working at Foodstuff.

This category is not a very cohesive one since the development paths of the plants varied widely according to the companies' differing long-term strategies. The degree of autonomy afforded by management to the workers did not provide any clear indications about the intentions or future strategies of management. The relaxed tempo and discretion in work tasks at Ingredient merely suggested that the company management was under-investing in the subsidiary. Work intensification during the campaign at Foodstuff possibly indicated that the headquarters was going to upgrade the product and value-adding scopes at the subsidiary. The only distinct issue that seems apparent in this category is the individualisation of employment relations – even though this tendency was evident in other types of production as well.

With regards to *job rotation* at the plants, the ISO9000 system was in place at Foodstuff, describing the allocation and delegation of work tasks. At Ingredient, there was a name list of workers outlining who could substitute for whom. The *allocation of work* tasks was carried out in a top-down fashion as was the case across all the plants. At Foodstuff, the director of each department made decisions about this issue, whereas at Ingredient it was the chief technologist who had developed a plan many years prior, although no “genuine” culture of rotation was ever cultivated there.

With regards to the frontier of control negotiated in the interaction between management and union at **Ingredient**, the unions' position had been weakened. Its legitimacy had also been tested during a period when the closure of one production unit had been negotiated and a new, individualised salary system was put into place. The ‘social plan’ associated with the dismissals at the closed plant had some analogies of co-determination, whereby the plan was modified in cooperation with the union. The union had no influence on the decision to shut down the plant. Moreover, there were demands from the workers to bargain wages individually, which could partially be seen as the result of dissatisfaction with the terms negotiated by the union. Therefore, the balance of power with regard to control over the labour process was shifting more to the management's side.

Within this context, one needs to pay attention to the strategies used by management to increase individualism. The desire for negotiating wages individually was more articulated in workers' opinions rather than in practice. Wage levels were still low in real terms, which acted as a catalyst for individual bargaining. Simultaneously, there was a widespread perception of the trade union as not being capable of negotiating sufficient pay rises. The general director had introduced a system of consultation talks with regard to salary increase. If somebody or a group of workers desired a wage increase, an application should be addressed to the supervisor describing the reasons behind the request. The outcome was determined by a panel consisting of the

general director, personnel director, production manager, the head of the department, and the worker(s). They considered the wage increase against the backdrop of training (courses), qualifications and career/tenure. Six to seven such gatherings, for instance, were held in 2005.

Issues of confidentiality are of research interest insofar as Ingredient is concerned. Typically, these are specified in the internal rules of work procedure, but in this case they were enumerated in the collective agreement. Secret and confidential information included, first and foremost, *individual employee relations* and *employment contract* and *salary*, although this clause did not concern the information given to the trade union. Other confidential issues specified in the collective agreement included financial figures, customer relations and business contracts, which are generally considered trade secrets. Why were salaries and the working agreement declared confidential? These clauses have an impact on corporate culture, and perhaps the management's aim was to minimise communication on the shop floor about these issues. Maybe this clause was also needed upon the introduction of new basics of payment, in order to avoid envy amongst co-workers. The management was seemingly in the process of adjusting the wage system to the coming of the internal labour market: In 2006, the collective agreement provided a four percent wage increase, in addition to which an on-average 4 percent premium was granted from the "wages fund" to those who were deemed more indispensable. Some of the "best" workers benefited from a 20 percent increase.

Can seasonally differentiated work tasks be regarded as a form of job enlargement or enrichment? The answer is affirmative at least insofar as Littler and Salaman (1984, 89) are concerned, given that "'job-enrichment' has usually meant the amalgamation of direct and indirect labour tasks such as setting up or maintenance". Littler and Salaman (*ibid*) furthermore maintain that "many shop-floor experiments consist of re-combining a set of unskilled tasks in order to solve managerial problems of work-load balance and quality control." That is to say, it is possible to shift from one dull monotonous job to another. It was discerned in the workers' replies that the seasonal process work was exhausting and continuously becoming more physically and mentally intensive. However, as job enlargement is meant to improve the quality of working life, it is doubtful whether the mere alteration between season and off-season work can genuinely achieve this aim.

8.3 Summary

The above analysis of control encompassed two levels: the corporation level and the plant level. Basically, the same distinction between direct control (DC) and responsible autonomy (RA) can be seen at both levels. At the level of the whole manufacturing chain, certain parts of the spatially dispersed labour process are subject to direct control, as is unequivocally evidenced at the Baltic plants. This notion is interwoven with the intended role of the subsidiary, and

investment in production facilities as well as prospects for importing some research and development from the Nordic parent company to the Baltic subsidiary. Steel Works was the only vertical metalworking subsidiary to have relocated some R&D activities to the Baltic factory. On the basis of this evidence, it remains unclear, then, whether the type of production or investment motive tends to determine the status of the Baltic unit (as only one case offers little more than a 'best fit' solution of the Nordic headquarters in this particular context). In sum, the Nordic manufacturer tends to simply seek a flexible production model as this fits entirely within the post-Soviet model of labour segmentation in the present Baltic labour market.

The plant-level analysis was based on an examination of workers' discretion over their work tasks and work time, as well as the intensity and control of work results. Furthermore, the direction of the change in workplace was scrutinised. Questions were raised over whether the labour process is becoming more intensified and disciplined, i.e. extreme of DC, or whether the traits of RA are increasingly discerned in the labour process. The results reveal the degraded role assigned to the Baltic subsidiary and its labour within the context of the entirety of the production value chain of the Nordic company.

The overall results appeared to contrast with the findings of the fourth wave of the European Working Condition Survey (EWCS) citing no significant difference in job autonomy indicators between the Baltic States and Nordic countries (Employment in Europe 2007, 151). There may be two possible explanations for this discrepancy. First and foremost, employees in the Baltic workplace may really have thought to *experience* considerable autonomy in terms of work pace and work tasks. Furthermore, the EWCS might not have effectively gauged the degree of work autonomy and survey replies may have been distorted. According to the findings concerning information dissemination and consultation in the present research, for example, the strictest piece-work discipline had been practised at the handwork factories, but the workers also reported the highest levels of autonomy with regard to work tempo. The highest overall discretion was reported by the employees working at Ingredient, where the relaxed work pace and workers' ability to make work-related choices need to be considered against the backdrop of the gradual withdrawal of the Nordic investor from the locality.

The intensity (as experienced by the workers) had increased considerably at those plants where strict control measures were reported by the management. This is consistent with the BWEL survey (Woolfson et al. 2008), which provides strong evidence of the intensification of work at the Baltic workplace. According to the present study, work at the production line plants had also considerably intensified, although intensification was observed in other types of production as well. At the production line plants, intense work was associated with an increased control of work, which in fact differentiated this category from efficiency seeking (clothing factories and engineering shops) and resource seeking (quota-based production) plants. In the latter categories, the intensification was not linked to increased managerial control.

9 CONCLUSION

This dissertation is aimed at addressing the following research questions: (a) what is the position of the Baltic worker in the labour process of Nordic manufacturing companies; (b) what is the effect of the Nordic headquarters' investment strategy; and, (c) what are the characteristics of the labour process at Baltic subsidiaries within the post-Soviet context? The research comprises elements from three different institutional frameworks (or modes of regulation). First, there is the 'Nordic' dimension: questions are raised over the extent to which trade unions are involved in consultation and decision making at the plant level, or in the absence of a trade union, which is common to the Nordic 'norm', whether any form of co-determination is employed. Second, there is the 'European' context given the accession of the Baltic States to the EU in 2004. This tension is explored by examining employee relations in light of the 2002/14/EC directive on information and consultation. Third, there is the 'Soviet' legacy that may still have an impact on some traits of work organisation and employee relations at Baltic factories.

9.1 The position of the Baltic worker

The main conclusion of this thesis is that while a high degree of worker discretion and a high-level of union influence characterise the labour process at the Nordic 'core', direct modes of discipline and undermining union power are pervasive in the Baltic 'peripheral' units. To remain competitive, firms seemingly need to maintain a certain part of the production process under strict control, and unequal positions between the principal firm and subsidiary are a result of this process. This finding is consistent with an overall value theory (Gough 1996), which insists on the coexistence of post-Fordist and Fordist production for the sake of maintaining competitiveness in the global market. Therefore, the subsidiary in the Baltic country tends to be the first to be relocated should product market pressures increase. It would appear to be

essential to maintain control over the subsidiary in order to facilitate the relocation process should this occur.

The Bravermanian 'degradation' thesis is particularly relevant with regards to clothing and process factories. Deskilling occurs in the peripheral segment of the disintegrated organisation of production, where numerical flexibility is associated with the standardised labour process (Gough 1996). As foreshadowed by Eliasson and Johansson (1994, 102) in their scenario concerning Swedish foreign direct investment in Eastern European countries, those activities that are labour intensive and can utilise a labour force with standardised competence have been relocated "to those areas where wages are low and the labour force is dependable and loyal". One could even argue that a kind of 'peripheral Fordism' is reinforced in the Baltic States where regulation is based on the coupling of intensive accumulation and the growth of markets, but where qualified employment positions also remain largely external to these countries (Lipietz 1986, 32).

No signs of greater job discretion typical of responsible autonomy (RA) were discerned at any of the factories. There did not even seem to be the slightest indication of Nordic 'Volvoism'-type responsible autonomy penetrating into the Baltic subsidiaries. Nordic employers either did not rely on Baltic workers' (i.e. blue-collar workers') discretion in labour process related matters or they did not want to give an opportunity for the workers to make decisions regarding the allocation of tasks. The organisation of work processes along Taylorist principles (a high degree of division of labour, close task control) was common across all the researched companies. Taylorist principles had therefore, as Lane (1989, 142) puts it, "won a widespread and enduring acceptance among management."

However, there were some exceptions to the overwhelming direct control (DC) rule. The employees' reports about their work autonomy were accompanied by managerial accounts about worker participation in job design. Three companies, namely Insulator, Steel Works and Profile Maker, had introduced measures signalling a step in the direction of the 'new production concept' (see Kern and Schumann 1984; Alasoini 1990) or flexible specialisation (see Boxall and Purcell 2003, 96). Insulator encouraged its workers to pass exams to achieve higher levels of qualifications in order to effectively work in different spots of the line. Profile Maker offered the possibility of upgrading skills and job rotation, whilst Steel Works, in principle, motivated workers to obtain "a wide range of skills". Flexible specialisation was not implemented in its fullest sense, given that it should be "built around the ideas of organizational decentralization and innovative production techniques managed on a daily basis by multi-skilled and flexible workers themselves" (*ibid*). Although workers were not "empowered" to make innovations on a daily basis in any of these three factories, there were mechanisms for developing innovative thinking: at Insulator a 'best practice' group was established and quality groups were formed according to need. At Profile Maker, all employees were involved

in the optimisation of the process, and *ad hoc* task groups were created in order to improve performance at Steel Works.

Direct control measures are directly linked to the introduction of internal labour markets in the subsidiaries. The Nordic employer's prioritisation of the internal labour market is hardly surprising if the post-socialist labour process is taken into consideration. Within this context, the Nordic employer is simply resorting to the host country model – which itself originates from the Soviet time – when putting the internal labour market into practice. Besides this overall tendency that in itself is meant for strengthening control over the labour process, the Nordic employers also draw upon the following methods to establish control over Baltic labour in the production value chain: a collective agreement to, for instance, increase flexibility in working hours; the pursuit of confidentiality vis-à-vis employee wages; and, the introduction of personalised pay scales and bonus systems. These measures resemble the experiences of blue-collar workers at an American manufacturer of electronics components, where “a worker cannot learn, for example, what her top pay is, how the job is classified, or even what the wage schedule is” (Edwards 1979, 4). The practice of segmentation in the form of wage allocation eventually leads to the emergence of an internal labour market, and serves as a means of gaining control over the labour force as seen within the context of post-Soviet enterprises in Russia (Scwartz 2004).

Why is an internal labour market given that there is already a vertical disintegration of production, and labour is treated according to the ‘dual regime model’ (Gough 1996)? What makes the division of labour *within* a plant so important even though segmentation already occurs at the company level? An obvious answer to this question, again, would appear to be the need to control the workforce, as the post-Soviet labour market regime provides the Nordic employer with an opportunity to ‘divide and rule’. The emergence of an internal labour market may also reflect the management's attempt to meet expectations as well as the disruptive potential of strategically placed occupational groups (Hyman 1987). This particularly needs to be considered within the context of the second research question: the impact of Nordic investment and managerial strategy on the labour process.

9.2 Investment strategy

Different combinations of investment motives and incentives, as well as the nature of the product and labour market, to a large extent shape the labour process: production line factories invest more in technologies and high-skilled labour (i.e. workforce involvement practices, HR policies); the workforces of textile manufactories are intended to be short-term (i.e. high labour turnover, possible relocation of production to Asia) and low-skilled. Insofar as metalworking shops are concerned, the investor tends to especially invest in their location and workforce, promoting R&D as well as workplace training

programmes. One company in the seasonal food production sector benefited from long-term investments in the product scope, whereas the other plant was subject to gradual downsizing and under-investment. The lack of a skilled workforce was mainly felt in engineering shops, but also to some extent in production line plants. An “exit strategy” to gain a better salary overseas was seen most acutely in handwork-based manufacturing.

With regards to efficiency-seeking investment, a distinction can be seen between first generation and second generation investment. While the former tends to reap short-term profits, the latter produces longer term productivity gains. Accordingly, the production process of first-generation investment is generally characterised by a total lack of direct participation and ‘negotiatory’ management style, whereas second-generation processes allow for multifaceted combinations of employee involvement schemes and indirect participation forms. This distinction is also attributable to the nature of product market – the former type of investment serves a mass market with low-cost products, whereas the latter type serves global markets or parent companies with batch products.

The dynamic of resource-seeking investment is entirely unlike that of its market and efficiency seeking counterparts, since its effects on the perceived labour process depend almost entirely on the strategic decisions made by the headquarters, which in turn derive from changes in the quotas of the EU market.⁵⁴ The special position of labour in this type of investment was the result of very long-term strategies based on fluctuations in quotas, but this was not necessarily equally sensitive to changes in the product market itself. Although one factory was faring well in the sense that the parent company was continuing to invest in it and to some extent upgrade the production process, another factory, despite its well-developed consultation mechanisms in the context of inherited Soviet practices, was in the process of closing down production due to restricted quotas. The irony should be noted in the manner in which the Nordic management had promoted co-operation with the local trade union, signed a collective agreement immediately after the takeover of the Baltic subsidiary, and developed a social plan for the dismissed workers of another Baltic subsidiary in co-operation with the trade union. Given the investment history of this company, even this co-operation did not seem to provide workers with the right to participate in decision-making processes, but rather it served to foster trust as a prelude to the closure of the unit.

This leads us to the conclusion that the investment motive *in and of itself* does not tell the whole truth, if further investment in the subsidiary is not also examined. With regards to the worker’s position in the labour process, it is observed that a significant role is played by investment in technology and human resources – these two seem to be interconnected – *after* the entry into the host country. Consideration of the ‘subsidiary role’ allows for a more long-term perspective. In terms of subsidiary roles (see White and Poynter 1984;

⁵⁴ This notion concerns only resource-seeking investments in the food processing industry.

Dörrenbächer and Gammelgaard 2006), the Nordic manufacturing subsidiaries tend to merely constitute *miniature replicas* or *rationalised manufacturers*, while no examples indicative of the role of *product specialist* were encountered.

However, the variation in the nature of production – which is related to investment motives – does not provide the only explanation for the position of the worker in the post-socialist peripheral labour process. Inward FDI in sites that produce for local markets to some extent differs from investment that is orientated towards efficiency or resources in terms of employee relations. However, the analysis of control uncovers the real managerial strategy towards Baltic labour. Obviously, workers at efficiency-seeking clothing manufactories are more clearly “locked in” to a lower status and qualification, whereas in engineering shops, resource-seeking quota-based production, and market-seeking production plants there is some variety in terms of the position of labour. Still, the same segmentation that occurs at the corporate level between the Nordic “core” and Baltic “periphery” within the clothing labour process, can also be seen in the intentional creation of the internal labour market in market-seeking and second-generation efficiency-seeking shops as well as resource-seeking plants. The only factor that interferes in the “divide and rule” strategy of Nordic employers is the extent to which labour characteristics and the labour process as a whole have inherited adaptative strategies and characteristics from the Soviet labour process.

9.3 The post-Soviet context

The Nordic headquarters has seemingly promoted those features of the socialist labour process that further downgrade the function of Baltic labour power. This is evidenced through such strategies as promoting the widespread use of the internal labour market as well as particular features of the Soviet labour process (e.g. strict discipline, participation coefficients, paternalist style), whilst disregarding other features (e.g. relatively high autonomy on the shop floor). A special feature of the Soviet production system, i.e. the collusion between shop-floor workers and middle management, has been to some extent retained from the Soviet time. Such relationships apparently also bear an impact on the post-socialist labour process.

Nordic-type employee relations were most common to factories that had sustained some features of Soviet-style social and work organisation. Within this context, the ‘Soviet legacy’ left room for Nordic practices to flourish. However, according to the analysis of managerial control, only minor attempts were made to introduce measures of job autonomy in lieu of the Fordist-Taylorist production regime typical of the Soviet era. Here, Baltic peculiarities become apparent while simultaneously hindering the adoption of the most advanced features of the Soviet labour process. In this respect, the ‘good riddance to communism’ ideology successfully complies with the intentions of Nordic industrialists. The results of this study are in direct contradiction to the

findings of Clarke (2004), according to which in the Russian business environment some features of Soviet production have persisted, including the considerable autonomy of line management and control of workers over the labour process. Nordic industrialists have managed to slightly decrease the worker autonomy (if this even existed in reality) that may have prevailed during the Soviet time in the Baltic manufacturing sector.

What have been the main factors behind the tendency among Nordic employers to exercise direct control and undermine the autonomy of their workers? Has this been in an effort to overcome the workers' inclination to 'idleness' as associated with the Soviet workplace, or have these measures been introduced to ensure profitability with the aim to control or even exploit the Baltic worker? Azorbo and Eliasson (2001, 83) speak of the Nordic principal firm's suspicions towards the 'culture' prevailing at Baltic factories, apparently due to local managers' tendency towards 'management sovieticus'. However, mutual suspicions may also be a result of the conduct of employers, given the introduction of various forms of direct control by the Nordic parent company.

One of the 'legacies' of the Soviet era is a remarkably high proportion of Russian workers in the Baltic manufacturing sector, which was also seen in the present study. The Baltic labour market regime is characterised by a certain degree of division between the Russian-speaking population and titular nation on the one hand, and female labour and male labour on the other. The findings of this study do not support the idea that there would be any ethnic cleavage in terms of labour standards, which allows us to conclude that the ethnic divide does not play a significant role at Nordic plants in the Baltic states. No observations were made about the deteriorated position of Russian-dominated plants. Somewhat contrary to my initial expectations, at the plants where Russian labour constituted the majority, workers were not more prone to join unions than at those plants where Estonians, Latvians or Lithuanians constituted the majority of the workforce. Additionally, the research findings suggest that it was as easy for Russian workers as it was for the ethnic majorities to become involved in individualised bargaining processes and thus the construction of the internal labour market.

However, it was observed that workplaces with a predominantly female workforce were more easily subject to direct control. Ultimately, the 'exploitation' of female labour in this sense is reducible to the nature of production (and accordingly to the investment motive). In alternative terms, the management representatives of handwork-based production are more prone to treat their almost unequivocally female labour with strict discipline. In other types of production, women also more often play the part of secondary labour, while core labour is typically male. This is hardly an extraordinary finding given global trends, but it is striking against the backdrop of the 'Nordic model' and the position of women in post-socialist Baltic societies.

9.4 Political and theoretical implications

The findings of this study suggest that Nordic investors do not seem to facilitate the improvement and more equitable reorganisation of labour processes within the context of Baltic industry. By and large, Nordic manufacturers are not relocating R&D activities to the Baltic subsidiary, and the role of the subsidiary is restricted to that of either a *miniature replica* or *rationalised manufacturer*. When foreign investment fails to offer sufficient spill-over effects for the development of the industry, the state in general, and the dichotomy between CMEs and LMEs in particular, assume a critical role. It appears that the post-socialist 'getting-rid-of-communism' ideology combined with the LME context does not provide incentives for longer-term investments in work organisation and labour. Rather, this provides a context in which a foreign company is likely to cultivate the 'low-road' option. In short, I do not advocate the mainstream ideology of the economics of transformation, according to which a transition economy coordinated by market forces will be better off than one regulated by the state (see Nissinen 1999, 20). A 'competitive state' based on LME principles, at least in this connection, does not offer the necessary incentives for enterprises to opt for the 'high road'. The 'high road' to competitive success, whereby firms can attempt to compete on the basis of high quality, is not possible without active state support including employment policy, high levels of social protection and public expenditure, high enrolment rates and emphasis on specific skills – as is the case in CMEs.

In addition to these ideas developed on the basis of the VoC paradigm, there is a need for re-defining the boundaries surrounding the labour process theory. Contrary to the accounts based on VoC, the labour process theory is capable of recognising processes and structures that are at the bottom of institutional development. However, a renewal of the theory is first and foremost required in order to take into consideration fragmented labour processes (Julkunen 2008b). In other words, it is necessary to move towards more holistic accounts of the accumulation of capital and spatial subdivision of labour. The result of a firm's continuous search for profit and competitive edge is a constant process of renewal and change in forces of production and labour skills (Thompson and Smith 2001, 56). This requires more 'flexible' solutions in optimising the whole value chain. A certain part of the spatially dispersed production process is destined to a degraded or downgraded position in this zero-sum game. This idea is not new as it was introduced by industrial sociologists in the 1970s (e.g. Fröbel et al. 1980), but it is worth noting its full applicability to the current regime of flexible accumulation.

It is worth emphasising within the boundaries of the labour process theory the role of managerial strategies in shaping relations in production. Two strategic levels can be distinguished in this research: the headquarters' strategies with regard to the subsidiary and labour management strategy. These strategies are aimed at increasing control over the labour process. The focus on strategy points to the shift toward a more actor-centred approach to labour

relations (see Lillie and Greer 2007). At the risk of slightly undermining the capacity of the labour process theory to grasp social structures in the economy, I advocate the idea of utilising a variety of strategies. According to this idea, strategic choices are possible within certain limits, even though none of those strategies may prove satisfactory (Hyman 1987). A limitation to the Nordic employers' meta-strategy to control the labour process was observed at the plants in which Soviet legacies in industrial relations interfered with the manager's attempt to define the "rules of game". In such factories, we can assert that although the headquarters' intended strategies may prove to be dominant, Soviet legacies are increasing the subsidiary's potential to negotiate subsidiary role development (on headquarters-subsidary negotiations, see Dörrenbächer and Gammelgaard 2006).

One may question whether the "capitalist" instinct even in the Nordic countries is to organise production along Taylorist lines when and if the opportunity arises, even though the historic compromise in the home country has resulted in a de-commodification of labour and flexible specialisation? Warning signs can indeed be noticed with regard to the de-commodified Nordic labour process, as we can assume something similar might happen in the Nordic countries as in the West European labour regime with regards to the international subdivision of the labour process in the 1970s and 1980s (Fröbel et al. 1980; Kasvio 1985). Chapter 2.3.4 elucidated a trajectory of the 'frontier of control' in the Nordic mode of labour process that culminated in industrial democracy in Swedish and German car manufactories, but which has retreated and given way to Japanese intensified production models. Car manufacturers such as SAAB, Volvo and Volkswagen constituted the prime examples of industrial democracy but they have either adopted different production models or closed down in the face of global pressures - or due to the Nordic management's disbelief in the value of the autonomous worker. The ideal of the multi-skilled autonomous worker is fading, whereas the downgraded Baltic labour is partially replacing de-commodified Nordic labour within the spatially disintegrated chain of production.

TIIVISTELMÄ

Teollisuustuotannon siirtyminen Kaakkois-Aasiaan on herättänyt paljon huomiota viime vuosina, mutta tuotannon asteittainen siirto Pohjoismaista Baltian maihin 1990-luvulla ja 2000-luvun alussa on jäänyt vähemmälle huomiolle. Tänä aikana pohjoismainen pääoma on saavuttanut vahvan jalansijan Baltian liiketoimintaympäristössä: vuonna 2002 yli puolet suorasta ulkomaisesta investoinnista oli peräisin Pohjoismaista. Tämä tutkimus antaa tietoa siitä, miltä pohjoismainen teollisuusinvestointi näyttää kohdemaiden näkökulmasta katsottuna. Se vastaa kysymyksiin: (a) mikä on baltialaisen työntekijän asema pohjoismaisessa teollisessa työprosessissa (työmarkkinasuhteiden, autonomian ja kontrollin kautta tarkasteltuna), (b) mikä on Pohjoismaissa sijaitsevan emoyhtiön investointistrategia (investoinnin motiivin ja tytäryhtiön roolin avulla tarkasteltuna) sekä (c) millainen vaikutus sosialistisella työn organisaatiolla (Taylorismi, suhteellisen korkea työn autonomia, löysät ja sukupuolistuneet työmarkkinat) on jälkisosialistiseen työprosessiin Baltian tehtaissa.

Valtioiden välisessä vertailussa käytetyn ”kapitalismin kansalliset muunnelmat” -paradigman mukaan Pohjoismaat ovat malliesimerkkejä ”koordinoiduista” markkinatalouksista, kun taas Baltian maat ovat lähempänä ”liberaaleja” markkinatalouksia. Jälkisosialistiset Baltian maat ovat käyneet läpi radikaalin rakennemuutoksen ja siirtymisen raskaasta sotateollisuudesta numeerisesti ja funktionaalisesti joustaviin pieniin ja keskisuuriin yrityksiin. Kansallisella tason päätöksenteko on perustunut uusliberalistiseen politiikkaan, jossa suorilla ulkomaisilla investoinneilla on ollut näkyvä rooli. Palkat ovat nousseet 15-20 prosenttia useana vuonna peräkkäin, mikä ei ole kuitenkaan merkinnyt tasaista tulokehitystä eri aloilla tai ostovoiman voimakasta lisääntymistä. Baltian maat pyrkivät pääsemään eroon Neuvostoliiton perinnöstä kaikin mahdollisin tavoin yrittäessään löytää omaa tietänsä markkinatalouteen. Sellaiset instituutiot kuten ammattiyhdistys ja työperusteinen sosiaaliturva nähdään helposti neuvostotyylisinä ja ”liberaaliin” markkinatalouteen epäsopeina. Ammattiitot ovat heikkoja – järjestäytyneisyys on 10-15 prosenttia – ja ne ovat menettäneet jatkuvasti voimaansa Neuvostoliiton kaatumisen jälkeen.

Tutkimuksen aineisto käsittää kaksitoista pohjoismaista tytäryhtiötä Baltian teollisuussektorilla. Otos sisältää yhden tanskalaisen, yhden suomalaisen, yhden ruotsalaisen ja yhden norjalaisen tytäryhtiön jokaisesta Baltian maasta (Virosta, Latviasta ja Liettuasta). Yhden maan sisältä valitut yritykset ovat eri teollisuussektoreilta. Puolessa valituista tytäryhtiöistä on ammattiliitto. Tutkimusmenetelmänä ovat olleet johtajien (yleensä henkilöstö- tai tuotantopäällikkö) ja luottamusmiesten syvähaastattelut sekä puolistrukturoidut työntekijöiden haastattelut. Yritysten tutkimuksen käyttöön luovutettuja asiakirjoja (esimerkiksi työehtosopimukset, tehtaiden sisäiset säännöt) on myös analysoitu. Lisäksi tehdaskäynneistä on laadittu muistiinpanot, joita on käytetty analyysissa.

Pääasiallinen tutkimustulos on, että kun pohjoismaisia emoyhtiöitä luonnehtivat työntekijöiden korkea työn autonomia ja vahvat ammattiliitot,

suora kontrolli ja ammattiliittojen aseman heikkous ovat Baltiassa sijaitsevien tytäryhtiöiden ominaispiirteitä. Pohjoismaille tyypillinen työntekijän autonomia, tiimityöskentely ja yhteistoiminta johdon ja työntekijöiden välillä on harvinaista tutkituissa yrityksissä. Tutkimustulokset antavat aihetta olettaa, että Baltian maat tarjoavat pohjoismaisille teollisuusyrityksille mahdollisuuden pyrkiä eroon Pohjoismaiden ”jäykistä” ja pitkälle konsensuaalisista työmarkkinakäytännöistä. Baltiaan sijoitettu osa tuotantoprosessista on myös muita tuotantoprosessin osia tiukemmassa kontrollissa. Tekstiili- ja prosessiteollisuus näyttäisi olevan tiukemmin johdon kontrollissa kuin konepajateollisuus ja vuodenaikojen mukaan vaihteleva elintarviketuotanto. Kaiken tyyppisessä tuotannossa työntekijöiden autonomian vaihtelu tapahtuu kuitenkin ”tiukan kontrollin” rajojen sisällä eikä ”vastuullisen autonomian” ja ”tiukan kontrollin” välillä. Baltialaisia työntekijöitä pidetään siten enemmän tai vähemmän homogeenisena, tiettyyn asemaan sidottuna työvoimaresurssina.

Ne tehtaot, joissa edelleen vallitsee joitakin Neuvostoliiton ajoilta periytyviä ammattiliittorakenteita, ovat kaikkein lähimpänä pohjoismaista työmarkkinamallia. Jopa yhteistoimintaa johdon ja ammattiliiton välillä saattoi havaita erään tehtaon sulkemisen yhteydessä. Kuitenkin näissäkin tehtaissa pohjoismainen emoyhtiö tuki sellaisia sosialistisen työprosessin piirteitä, jotka heikensivät baltialaisen työvoiman kollektiivista neuvotteluasemaa. Tätä päätelmää tuki havainto, että pohjoismainen yrittäjä pyrki luomaan tehtaisiin sisäisiä työmarkkinoita, joilla se suosi tiettyjä sosialistisen työprosessin piirteitä (tiukka kuri, työhönosallistumiskertoimet, paternalistinen johtamistyyli) kun taas vältti toisia piirteitä (suhteellisen korkea työntekijän autonomia). Eräs neuvostoliittolaisen työprosessin piirre, työntekijöiden ja keskijohdon läheinen suhde, on edelleen tiettyssä määrin säilynyt.

Baltialaisisten tehtaiden tuotantoprosessia tarkastellaan myös osana pohjoismaisen yrityksen koko tuotantoketjua. Näin tarkasteltuna baltialainen työvoima näyttää yhä enemmän periferiseen asemaan sidotulta. Tayloristinen työn organisaatio yhdistettynä johdon suoraan kontrolliin näkyy niin fordistisessa massatuotannossa kuin muissakin tuotannon tyypeissä, konepaja- ja vuodenaikojen mukaan vaihteleva elintarviketuotanto mukaan lukien. Tämä säilyy perusasetelmana investoinnin motiiveista riippumatta. Sen lisäksi, että pohjoismainen tehtailija noudattaa kotimaan käytännöistä poikkeavaa linjaa Baltian yksiköiden työmarkkinasuhteissa, se on myös valinnut ”alempien kehitystien” Baltian tehtaiden pitkän aikavälin investointeihin ja tuotekehitykseen. ”Koordinoidusta” markkinataloudesta kotoisin oleva yrittäjä ei näin automaattisesti ryhdy kehittämään tuotantoprosesseja investoidessaan ”liberaaliin” markkinatalouteen. Kohdevaltioiden kannattaisi houkutella enemmän sellaisia investointeja, jotka panostaisivat pääomavaltaisempaan tuotantoon ja inhimillisten voimavarojen laadukkaampaan käyttöön.

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APPENDIX 1

Questionnaire for Workers

A. Basic data on the firm

Country:	Country of Origin:	Industry:
Estonia	Denmark	Chemicals
Latvia	Finland	Construction
Lithuania	Iceland	Food
	Norway	Electronics
	Sweden	Energy
		Metal
		Textile
		Wood

0. Basic data on the respondent

Nationality:	Sex:	Age: _____
Estonian	male	
Latvian	female	
Lithuanian		
Russian		
Other, what? _____		

1. Please tell shortly about Your life history (where is born, places for living, marital status, children...)

2. Please tell about Your education

if the respondent does not start telling about the following matters, ask him/her additional questions:

- basic school
- vocational school
- courses

3. Tell about Your work history (at what age started, which occupations and professions...)

if the respondent does not start telling about the following matters, ask him/her additional questions:

- first workplace
- how many years in this workplace
- which work tasks has he/she got had in the current firm, for how long

4. With Your employer, do you have

...a written fixed-term employment contract	1
...a written termless employment contract	2
...a written contract for doing a specific work	3
...no written labour agreement	4

5. Can I see the employment contract (if also employer allows that)?

- yes
- no
- all the same
- not sure about it

6. How have You agreed on the wages? Do You have the wages written on your employment contract?

7. What is Your gross salary (without taxes)? _____

(Or hourly wage? _____)

_____ is not willing to say, why?

- ___ it is private matter
- ___ it is secret agreement with employer
- ___ it is not allowed by employer

8. Do You know others' salaries? How big are they?

9. Besides the employment contract, have You, through the initiative of the employer, signed any other extra agreement (such as shorter paid leave,

large volume of work to be covered, an agreement on your enrolment and dismissal with no specification of the date etc.)?

10. On what basis is your wage paid?

- fixed monthly salary
 by the hours worked
 by the piece (by the job)
 fixed salary and, by the piece or bonus

11. Tell about the firm (what owners, when this become owned by foreigners, how has it affected the number of employers...)

if the respondent does not start telling about the following matters, ask him/her the following questions:

- is he/she satisfied with the workplace / owner
- has he/she been working here since the foreign owner took over
- what changes has occurred since the company became foreign-owned

12. What is Your duty here, at what department?

13. What are the working conditions at your workplace like (are You satisfied...)?

14. To what extent do the following incidents occur at your workplace (1= a lot, 2= quite a lot, 3= to some extent, 4= not at all, 9= do not know)

...disagreements between superiors and employees	1	2	3	4	9
...conflicts between employees	1	2	3	4	9
...conflicts between groups of employees	1	2	3	4	9
...rivalry, internal competition	1	2	3	4	9
...conflicts with clients	1	2	3	4	9
...threat of physical or mental violence	1	2	3	4	9

15. To what extent can you influence... (1=totally, 2=rather much, 3= very little, 4= not at all, 9= do not know)

...your job tasks	1	2	3	4	9
...your work tempo	1	2	3	4	9

16. During the last 12 months, have you participated in training which is fully or partly financed by your employer

no
 yes, how many days? _____
 which training / courses?

17. During the last 12 months, how has changed in Your workplace (1= considerably increased, 2= somewhat increased, 3= remained the same, 4= somewhat decreased, 5= considerably decreased, 9= do not know)

...intensity of work, tempo	1	2	3	4	5	9
...safety at work	1	2	3	4	5	9
...work's physical stress	1	2	3	4	5	9
...work's mental stress	1	2	3	4	5	9
...control of work results	1	2	3	4	5	9
...to take advantage of training offered by employer	1	2	3	4	5	9
...support from your direct superior	1	2	3	4	5	9
...possibility to use your professional skills	1	2	3	4	5	9

18. Is there a trade union in your workplace?

yes
 no. Has there been one? _____
 do not know

19. Are there one or more trustees appointed by the employees?

yes, trade union shop-steward
 yes, non-trade union trustee
 no
 do not know

20. Are You a member of a trade union?

yes
 no, have You been a member? _____

-> If the respondent has been a member before, go on asking:

Why did he/she quit the trade union? When did he/she join/quit?

21. How many trade union members are there in Your workplace? ____ (999=I don't know)
22. Are there collective agreements in your workplace
 ____ yes
 ____ no. Has there been one? ____ When? ____ - ____
 ____ do not know
23. Are the negotiations on collective agreements going on now in Your workplace?
 ____ no
 ____ yes. For how long, then? ____ months
24. How well or badly are trade unions able to control that the agreement are adhered to?
 ____ very well
 ____ quite well
 ____ not well and not badly
 ____ quite badly
 ____ very badly
25. The next statements concern trade unions. Please assess on a 5 point scale to what extent do You agree or disagree with them, giving on point in case of a total agreement and 5 point in case of total disagreement.
- | | totally | | | | totally |
|--|---------|-------|---|---|----------|
| do not | | agree | | | disagree |
| know | | | | | |
| Trade unions know problems of ordinary employees well | 1 | 2 | 3 | 4 | 5 9 |
| One can trust trade union leaders | 1 | 2 | 3 | 4 | 5 9 |
| My co-workers think that it is very important to be a member of a trade union | 1 | 2 | 3 | 4 | 5 9 |
| Trade union activity is backward-looking | 1 | 2 | 3 | 4 | 5 9 |
| In the current situation, being a member of trade union does not bring any advantage | 1 | 2 | 3 | 4 | 5 9 |
| My employer is against employees belonging to a trade union | 1 | 2 | 3 | 4 | 5 9 |
| Other institutions (work inspection, work law etc.) cope with the employees' problems better than the trade unions | 1 | 2 | 3 | 4 | 5 9 |
| I know well the way trade unions work | 1 | 2 | 3 | 4 | 5 9 |

25. What is Your opinion about the reputation of trade unions in public?

- positive
 rather positive than negative
 rather negative than positive
 negative
 do not know

26. Do You predominantly negotiate the following issues individually or collectively in Your workplace?

	individually	collectively	
salary	1	2	(9)
holidays	1	2	(9)
duration and permanence of the working agreement	1	2	(9)
employees' safety and health at work	1	2	(9)
length of working time (daily or weekly)	1	2	(9)

27. Do You think the following issues should be negotiated predominantly individually, or at the workplace together with co-workers, or at the workplace by shop-stewards, or so that labour union federations negotiate them on the national level? (THE MOST IMPORTANT LEVEL)

(1= everyone individually, 2=at the workplace together with co-workers, 3= at the workplace by shop-stewards, 4= on national level by trade unions, 9= no opinion)

salary	1	2	3	4	(9)
holidays	1	2	3	4	(9)
duration and permanence of the working agreement	1	2	3	4	(9)
employees' safety and health at work	1	2	3	4	(9)
length of working time (daily or weekly)	1	2	3	4	(9)

28. How many hours in total did You work last week? _____ hours

29. Do You work overtime during a normal working week (i.e. working time which lasts over legitimately and/or by the employment contract fixed working time)?

- yes
 no
 do not know

30. Have You received for being overtime

- ...money compensation yes no
 ...being on overtime was compensated by giving free days
 yes no

...being on overtime was not compensated at all ___ yes ___ no

31. Does Your employer provide You with information / has the employer consulted You on...
- a) recent and probable development of the company's activities and economic situation
 - b) the situation, structure and development of employment
 - c) decisions likely to lead to changes in work organisation or in labour agreements.
32. Have You got during the last 2 years
- a) sick leaves ___ no
___ yes. If yes, how many weeks? _____
 - b) parental leaves ___ no
___ yes. If yes, did You need to terminate Your contract for that time? ___
 - c) Your own, voluntary leaves ___ no
___ yes. If yes, for what reason? _____

THANK YOU VERY MUCH FOR HELPING US!

APPENDIX 2

Questions for Representatives of Management

1. Personal background

- education
- previous occupations
- how and when appointed to the current position
- duties and responsibilities in the current position

2. Company information

- greenfield, joint venture or foreign takeover?
- how this factory is related to the whole concern in terms of workers and turnover?
- has the concern taken over other subsidiary companies in other CEE countries?
- reasons for investment
- if existed already in the Soviet time, what was the company for?
- if existed already in the Soviet time, has the workforce remained the same?
- the year of takeover/start by the foreign owner?
- has the company name or branch changed?
- employment trends in the factory (diminishing/increasing/remained the same)
- number of workers at the moment
- number of female / male workers
- different ethnic groups in the workplace
- net turnover at the moment

3. Production policies

- what changes the foreign owner has introduced in the production structure in the factory?
- what technical changes have you introduced?
- division into departments; what departments are there?
- do you have work units smaller than just departments?
- how many workers per unit/department?
- how many foremen there are per unit?
- what different occupations do you have at the factory?
- number of permanent jobs / temporarily hired workers
- how many shifts? How many workers per shift? Is the night shift or evening better paid?
- what issues there are written in the working agreement?*
- do you have a "code of conduct" or factory regulations in a written form?*
- basis for payment: hours worked or by the piece, bonus systems
- salaries / wages in different salary groups

- what other provisions do you have for workers?
- sanitary conditions and work-related benefits?
- permanence/flow of workers in this workplace
- age structure of workforce
- have you organised activities outside the workplace?

4. Social dialogue

- are you member of any employers' association? Which one(s)?
- do you have regular contacts with other employers?
- what are the reasons to belong/ not to belong to an employers' association?
- of what issues the workers are informed? How often?
- have the workers participated in the decision-making of the company? At what level?
- if the management has to determine important matters, do they consult employees? In which issues?
- do the employees have a representative or a shop-steward elected?
- do you have regular meetings with employees or representatives of employees?
- have you had labour disputes in the factory? How have you solved the problems?
- have you had negotiations concerning labour issues with the representatives of employees?
- do you have a trade union? How many members there are?
- have you got a collective agreement? Negotiations?
- does your company have an obligation to have an EWC? What measures have you taken in order to choose representatives for EWC?

APPENDIX 3

Themes of interviews with shop stewards

1. Work history, education

- previous jobs
- when and how elected for shop steward
- tasks in the firm, and how long has worked for this firm

2. The firm

- company name, business idea and the existence of trade union during the Soviet time (in case such a question is applicable to this firm)
- privatisation process (if the question is applicable)
- when a foreign owner acquired the company
- what changes the new owner has introduced

3. The union organisation

- when established – history
- how many members – an increasing / decreasing trend?
- collective bargaining agreement, what issues does it cover (ask for a copy of it)
- what issues are on the agenda in terms of negotiations with the employer
- disputes and strikes
- membership fee
- relationship with the federation level
- meetings, activities
- recruiting

4. information and consultation

- on economic performance of the firm, how frequently, with whom
- on the development of employment
- on the changes in organisation
- does the management convene the entire workforce
- is the trade union consulted, on which issues
- what role do you think the trade union plays in the opinion of the management
- European Works Council (EWC)

5. Shop steward

- pros and cons of acting as a shop steward
- does the employer allow you to participate in meetings and seminars organised by the federation level

APPENDIX 4

Figure 1 The scheme of production process at Insulator

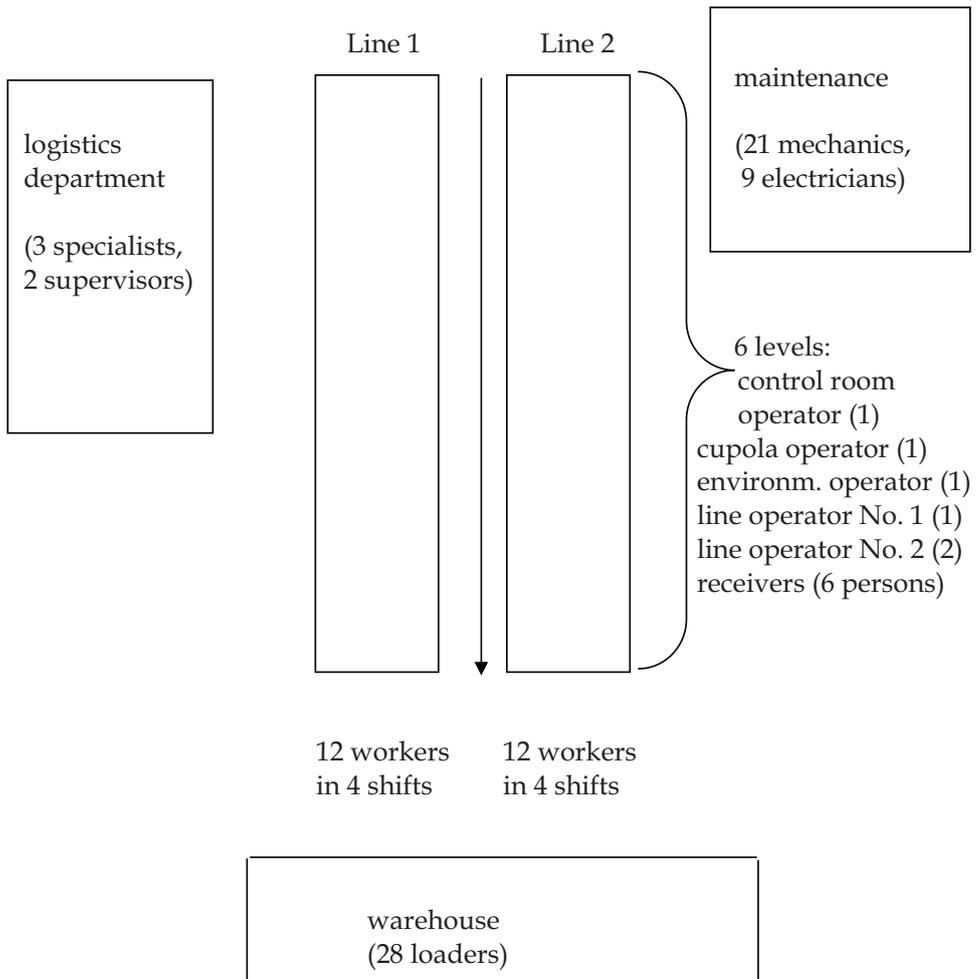


Figure 2 Production scheme at Medicament

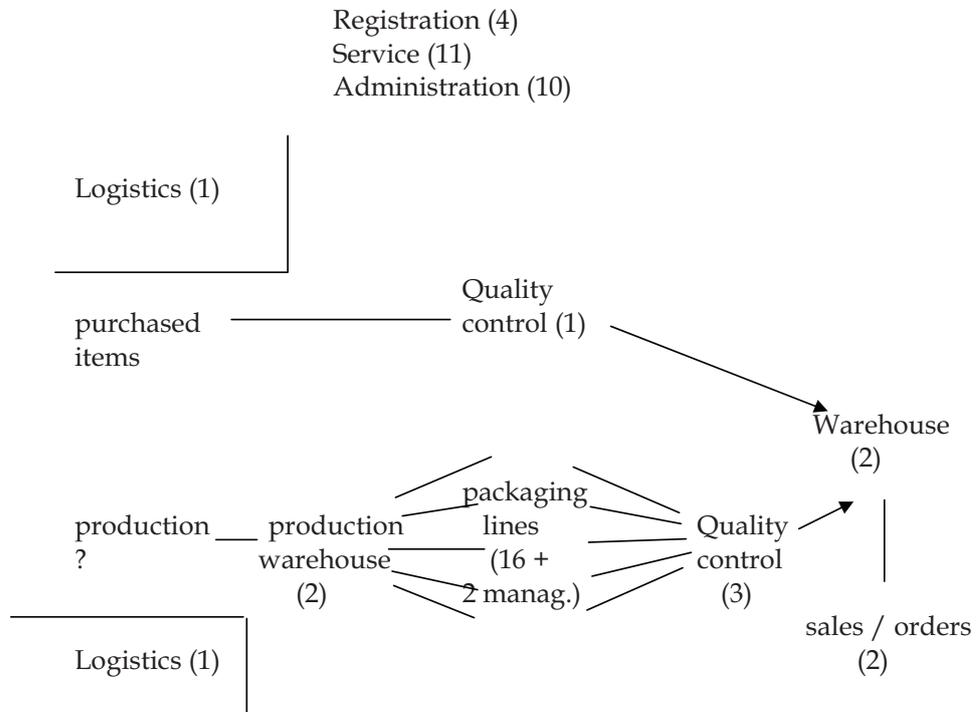


Figure 3 Production scheme at Natural Drink

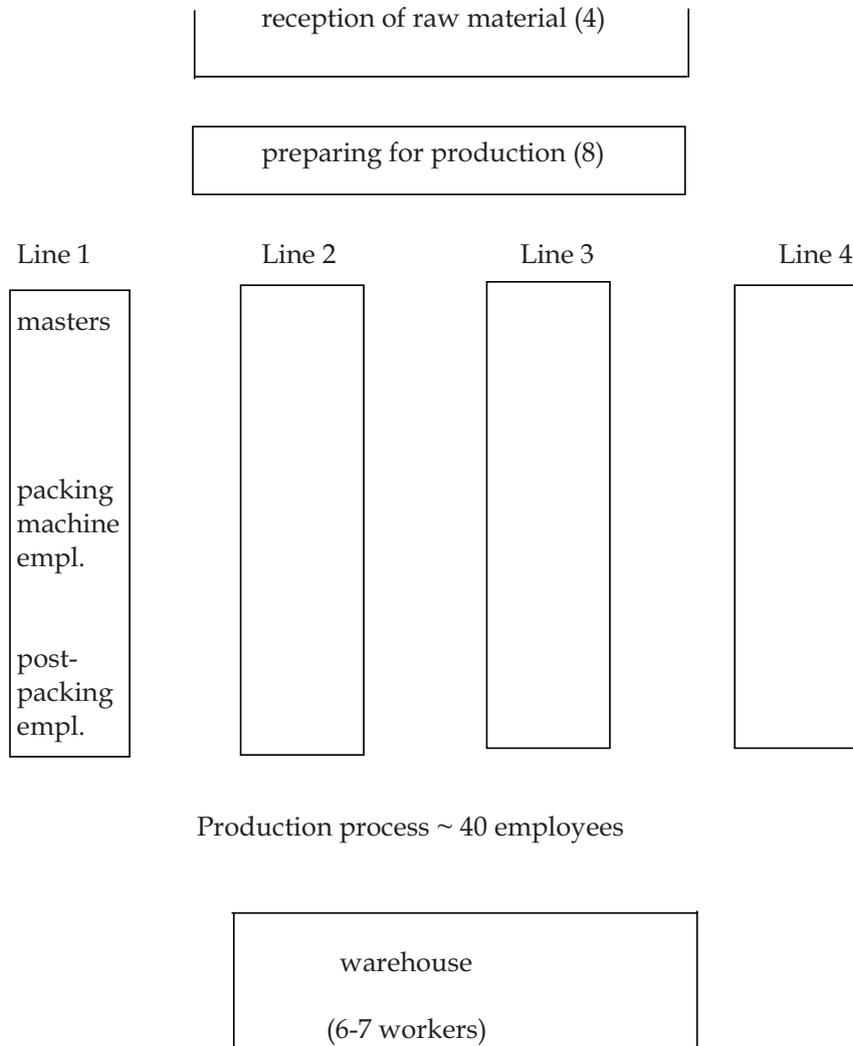


Figure 4 Production scheme at Prefab

Logistics

Maintenance

Reinforcement

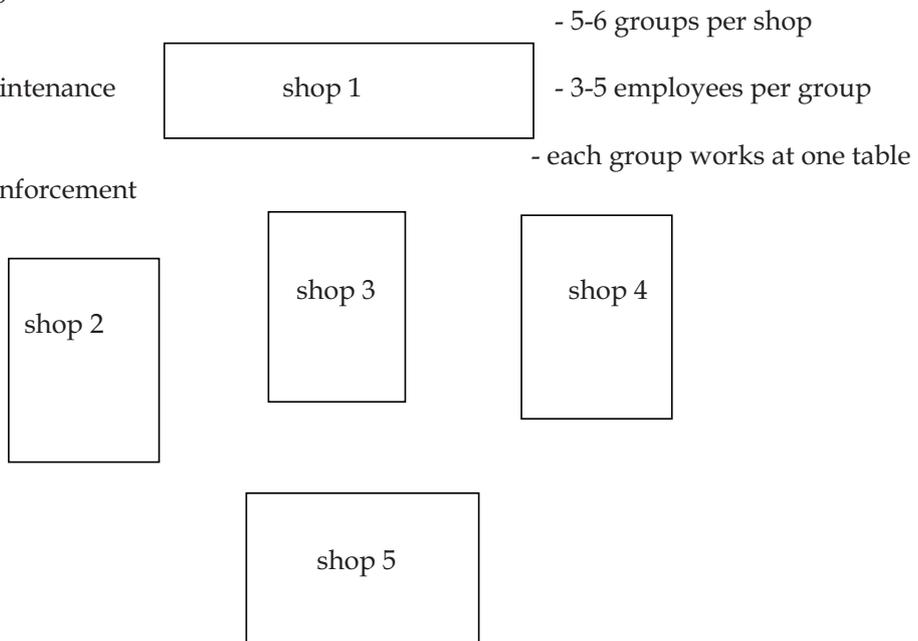


Figure 5 Production scheme at Fabrics

From the Nordic country: - pattern, design
- raw materials, accessories
- shipped to the Baltic country

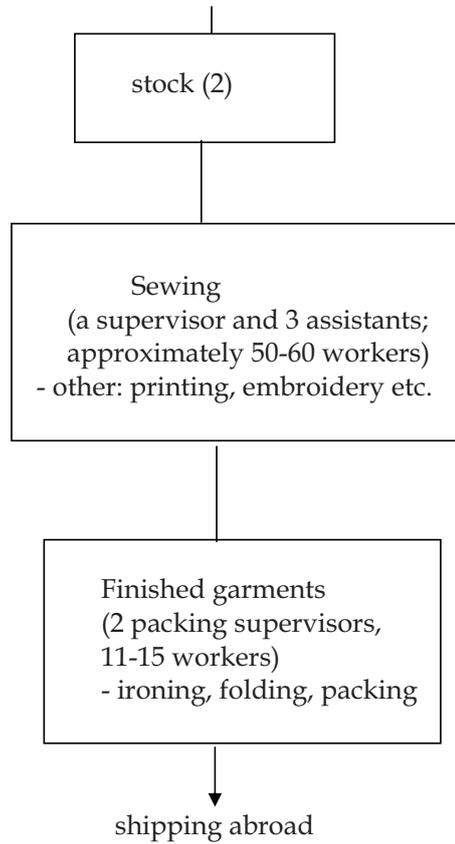


Figure 7 Production scheme at Tailor

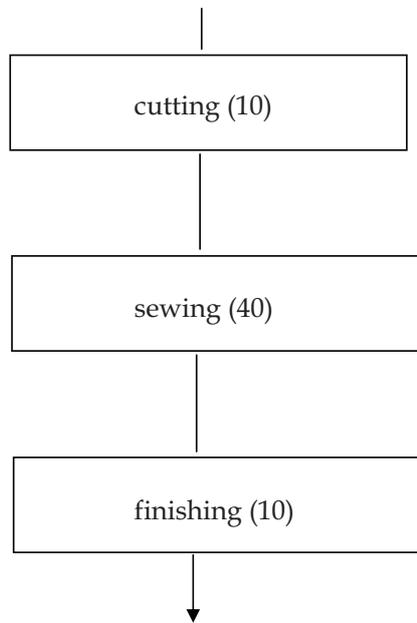


Figure 8 Production scheme at Profile Maker

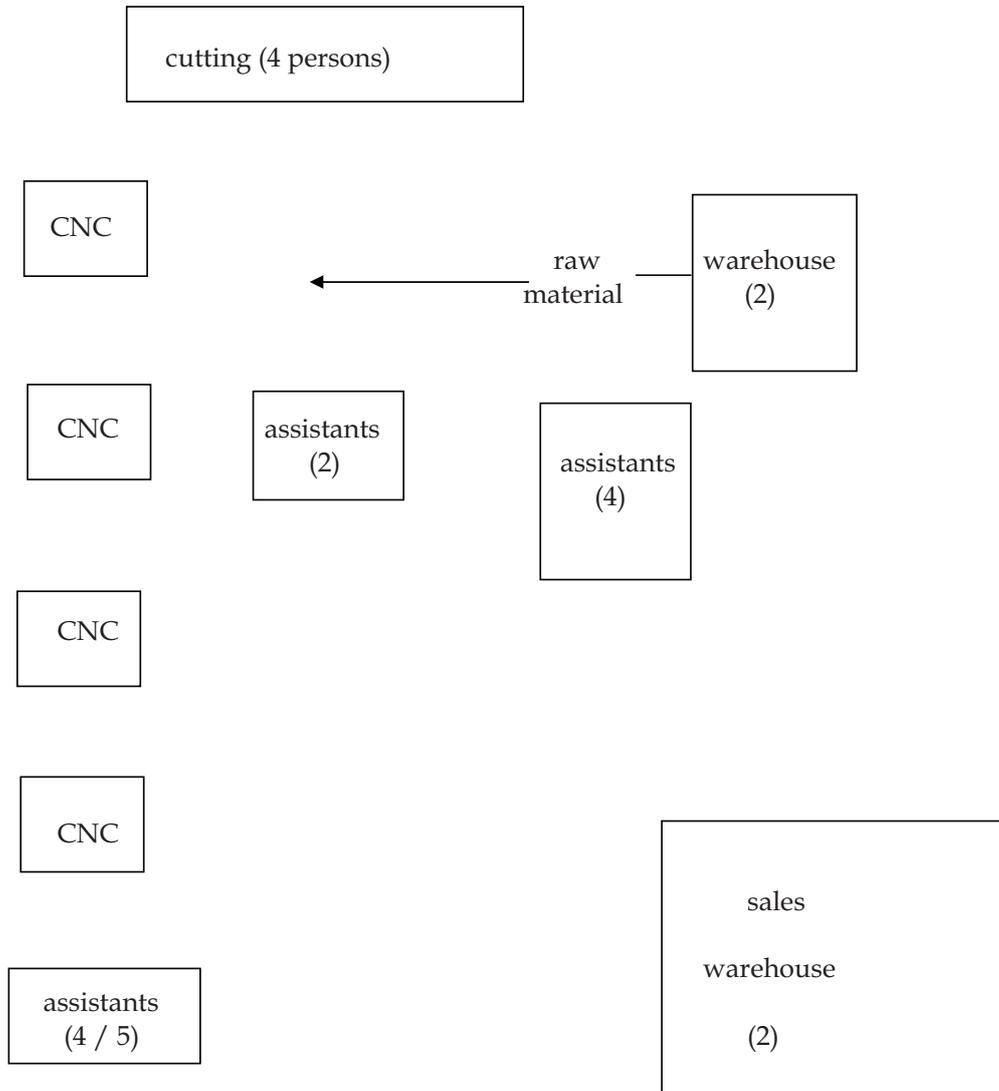


Figure 9 Production scheme at Steel Works

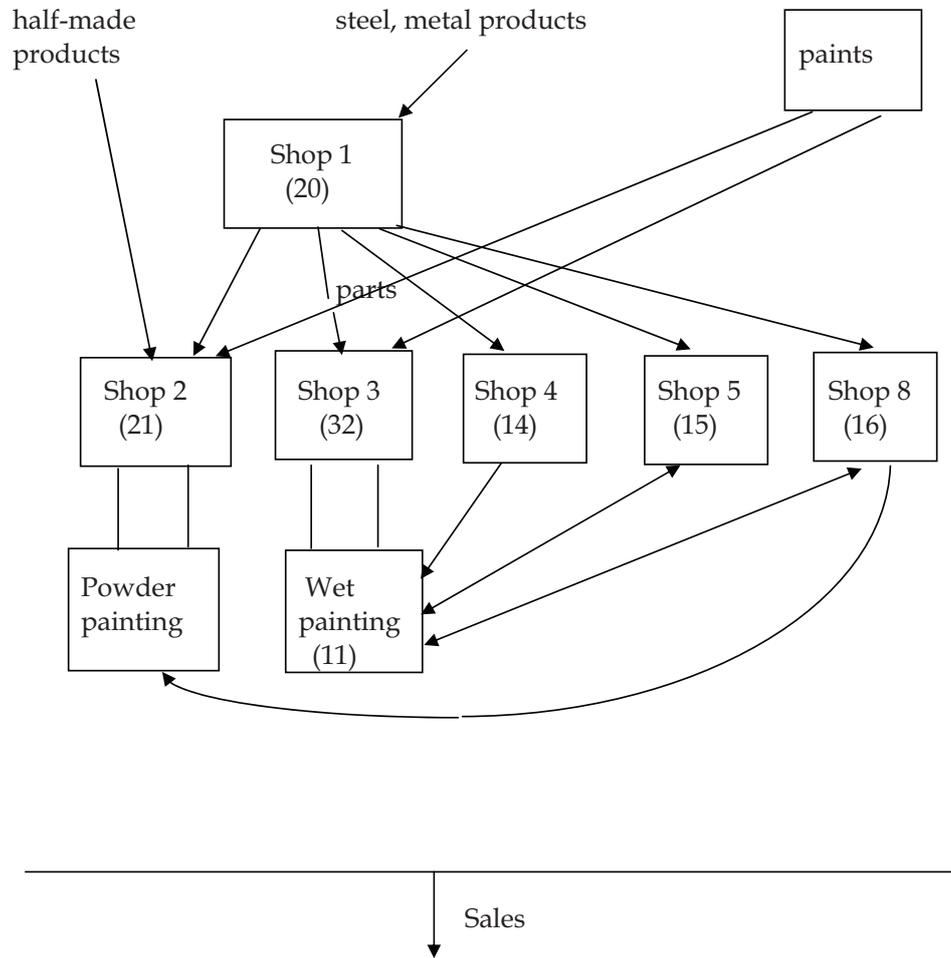
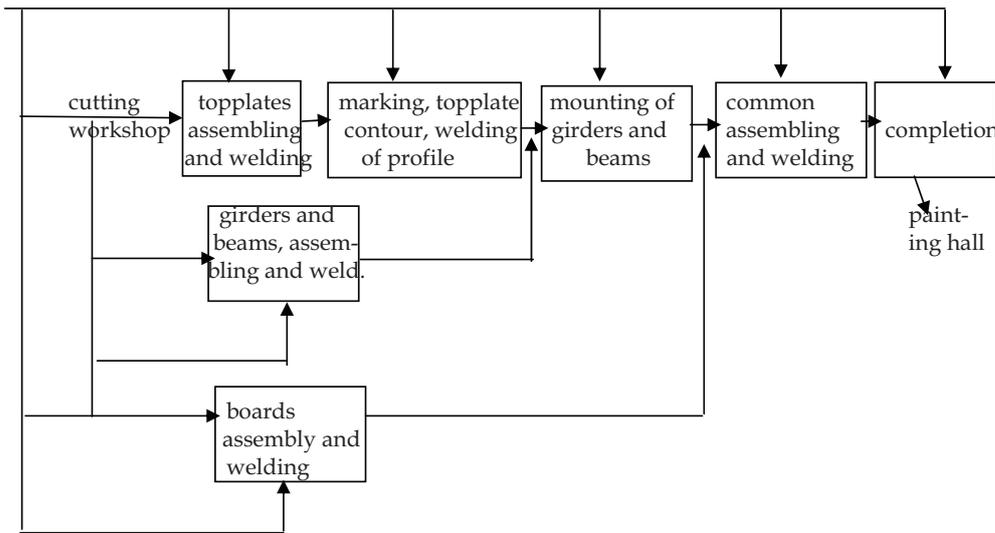


Figure 10 Plans of the two biggest production shops at Water Vehicle

Shop 1 (182 employees in Summer 2006)

Plan, QC, drawings, welding material



Shop 2 (152 employees in Summer 2006)

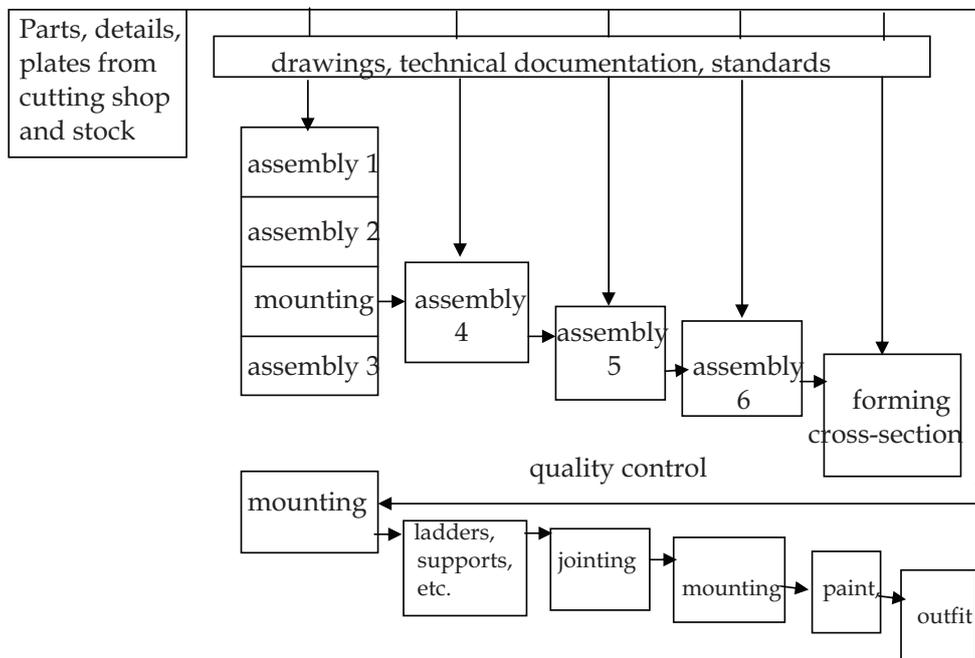


Figure 11 Production scheme at Foodstuff

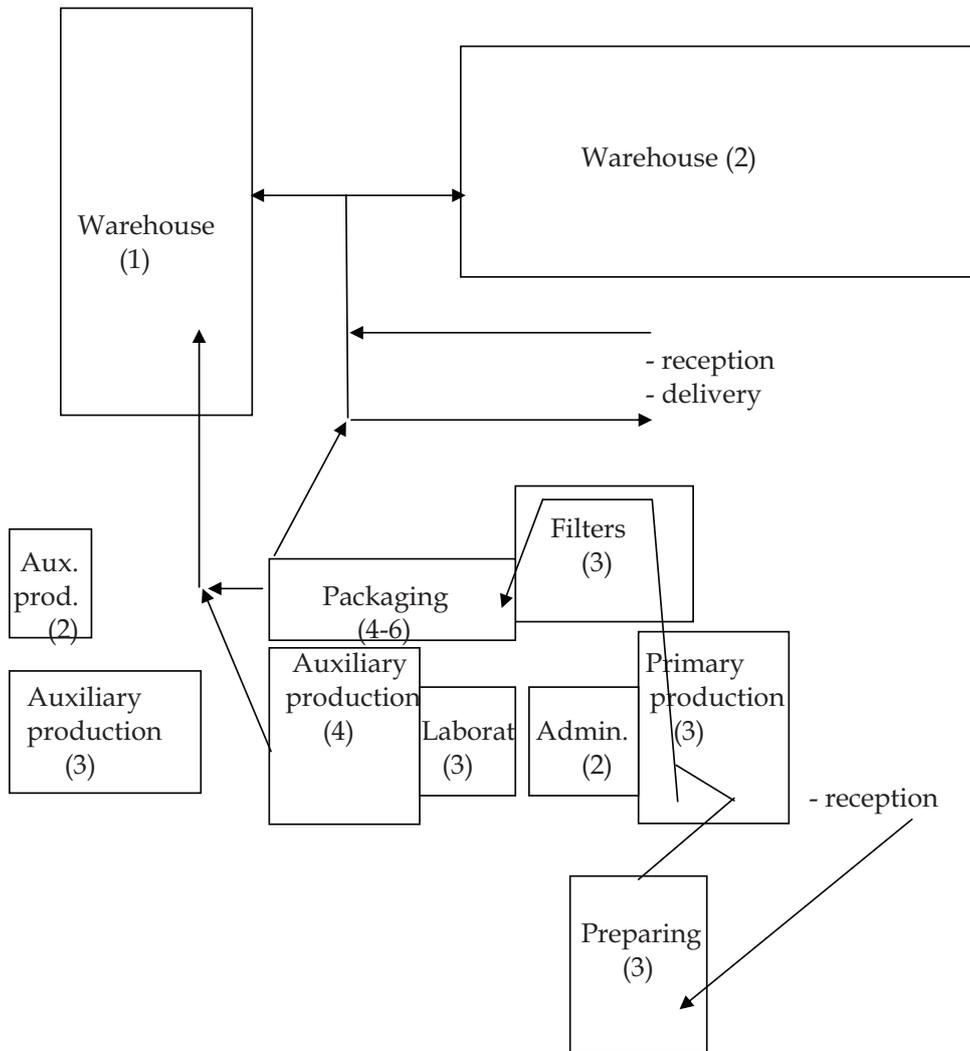


Figure 12 Production scheme at Ingredient