

Foreign direct investment in Central Eastern Europe and industrial relations: Lessons from the European Works Councils in Poland

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The enlargement of European Works Councils to Central Eastern Europe is a rare attempt at transnational employee representation covering low- and high-wage areas. Research carried out in Poland in 2001 provides a quantitative estimate of its extension and a qualitative assessment of its effects. The evidence undermines fears of 'social dumping' and reveals indirect effects definable as 'short circuits'.

This article presents some findings from a research carried out in 2001 on the transfer of European Works Councils (EWC) to Poland, a post-communist country expected to join the European Union (EU) in 2004.

By embracing countries where wages are up to 80% lower and unit labour costs up to 20% lower than the EU average, EU enlargement into Central-Eastern Europe (CEE), will probably be the toughest test ever in the EWC history (EC, 2000; Meardi, 2002). If social dumping, labour-cost driven relocations and coercive comparisons are a threat, it is across Western and Central-Eastern Europe that it will be most visible. In the eight post-communist countries expected to join the EU on the 1st of May 2004 the EU Directive on the EWC still does not oblige. Nevertheless, these countries have already begun to transpose it into national legislation¹ and, more interestingly, several cases of EWCs already voluntarily including CEE representatives are known.

¹ Poland did so in April 2002 (*Ustawa z dnia 5 kwietnia 2002 r. o europejskich radach zakładowych*, Dz.U. nr 62, poz. 556), although the law will not take effect until the date of EU accession.

This article presents exploratory research carried out through questionnaires and case studies in Poland, by far the largest among the soon-to-be new EU member states. The research addressed two main issues. First, is the east-west divide in Europe likely to cause tensions within EWCs? Are social dumping and labour-cost driven relocations an issue? Do specific interest conflicts between Eastern and Western representatives emerge? Second, what impact do EWCs have on Polish industrial relations: do they change the behaviour of management and trade unions?

After an introduction to the issue, two main elements of the research are presented. First, a quantitative estimate, through a cross-analysis of three databases, of the Polish presence in the EWCs, showing that the process of enlargement seems to be already well on its way. Second, case studies (six companies with different levels of EWC integration) explored the effects of EWCs, especially upon the politically sensitive issue of relocations and upon industrial relations at the plant level. These effects appeared to be mainly indirect, but nonetheless important: they may be defined as a ‘short circuits’ due to the sudden meeting, through the EWC, of western and eastern European realities of industrial relations.

Foreign Direct Investment in CEE: Risks of social dumping?

EU enlargement will have at least indirect effects on the so-called ‘European Social Model’ and on the Europeanization of industrial relations (Meardi, 2002). Heterogeneity in economic and social standards will increase significantly. If in 1998 the coefficient of variation of gross wages within the European Union 15 member states was 0.32, it would have been more than double (0.73) if the ten post-communist countries were included (Kittel, 2002). Even though wage levels are slowly converging between east and west, when the enlargement will occur the increase in

variation will still be macroscopic. This raises fears that the creation of larger product markets including countries with very different industrial relations arrangements would introduce unprecedented strain on a so-called ‘European social model’ based on relatively high interest organisation, welfare state coverage, and income equality (Kittel, 2002). The theoretical reason behind this reasoning is simple: since the very beginnings (Commons, 1919), industrial relations theory argues that arrangements either cover the whole product market, or they are ineffective given capital mobility.

CEE ‘undercutting’ can only directly affect a minority of the labour forces (those employed in sectors exposed to East-West international competition). A first, if temporary, form was through Outward Processing Trade between EU and CEE, which exploited tariff privileged treatment and wage differentials in the western declining industries in the mid-1990s (Pellegrin, 2001).

A segment of the workforces particularly affected will be that of multinational companies’ (MNC) employees in internationally integrated manufacturing productions. CEE has become in the last years one of the most attractive regions in the world for Foreign Direct Investment (FDI), and has been the only one where FDI inflows have increased in 2001-02 in spite of the global recession (UNCTAD 2003). Even though the most authoritative studies (Boeri and Brücker, 2001; Kunz, 2002) have downgraded fears of massive relocations to CEE in the enlargement aftermath, a part of FDI is indeed efficiency-seeking: for instance, some western investors in the automotive sector re-export back to Western Europe more than 90% of their production (Pottier 2003: 159). In addition, the gap in the productivity that at the aggregate national level may be an economic justification for international pay gaps, tends to be much lower within MNCs.

The elimination of the residual barriers to capital, goods and services mobility will affect, at least indirectly, employment relations in MNCs. Given, for social and regulation reasons, the lower mobility of labour², the increase in capital mobility alters the balance of power between the two actors even if this mobility remains hypothetical. In particular, the enlargement could increase the possibility for ‘coercive comparisons’ among operations in different countries. Recent evidence from Germany shows that employers see CEE as an attractive location due to labour costs and tax exemptions (Stumpf-Fekete, 2001). Internal competition from plants of the same firm located in other countries massively increases the occurrence of defensive pacts for employment and competitiveness, which tend to undermine the German collective bargaining system (Rehder, 2001). More generally, there is evidence from Germany of Foreign Direct Investment (FDI) being used ‘to blackmail domestic industrial relations partners into making unprecedented concessions’ (Lane, 2001: 195). Such process, it has even been argued, ‘might blow apart the whole societal syndrome and thus undermine the social coherence of current German models of production organization and industrial relations’ (Lane, 2001: 207).

A specific mechanism in this regard is the ‘reverse diffusion of practices’ (Edwards, 1998), whereby multinational companies can use subsidiaries’ experiences to implement change in the parent company. Against the common view of Central-Eastern Europe as ‘backwards’, the CEE context of transformation and EU accession provides a veritable test bed for cross-border innovation and for the flexible diffusion of both tried and newly evolving practices along the production chain of MNCs. Examples of experimentation by foreign companies in performance related pay, internal mobility, and non-union representation have already been detected in Poland

² A transitory period of up to seven years on the free movement of workers between the new member states and some current member states (notably Germany, Austria and Finland) is planned. Within the

(Meardi, 2000). The phenomenon may be most apparent in the already mentioned case of German FDI, where ‘the strong desire of the top management of many MNCs to flee certain aspects of their country of origin business system and/or to learn from or experiment with aspects of other business systems’ has been already reported (Dörrenbächer, 2002: 3). The most notable case has been the one of Audi investment in Györ, Hungary, where innovations were clearly intended for the whole Audi Group (Kessel and Dörr, 1998: 2). In this regard, the possible role of EWC in controlling the disruptive potential of EU enlargement on industrial relations is an important variable.

The ‘boundaries’ of the European Works Councils

In the few years since the European Directive no. 45 of 1994 officially established them, the EWC – as the most advanced form of statutory transnational employee representation ever – have attracted an impressive amount of research interest, as documented by the 153-page long literature review completed by Hoffman and Müller (2001). On the one hand, EWCs’ role is strictly of information and consultation, not negotiation (Lecher, Platzer, Rüb and Weiner, 2001). Far from promoting transnational collective action, on substantial issues they tend to be used by national representatives to defend national interests (Hancké, 2000). On the other hand, EWCs are indeed emerging as European institutions, and not as simple extensions of home-country arrangements (Marginson, 2000). Although they normally do not affect substantial decisions, they do have an impact on the implementation forms of the same decisions (Marginson et al., 2001). More generally, they promote union transnational networking, which if does not produce immediate results, is an important step towards the Europeanisation of industrial relations (Lecher, Platzer, Rüb and Weiner, 2001).

current EU member states, transnational worker mobility involves only 2% of the workforce.

Existing research, however, has been limited to the EU boundaries. The effects on non-EU based multinationals covered by the Directive, and on plants outside the EU have been investigated only very rarely. A systematic review of research on American MNCs found hardly anything on the EWCs, and nothing on the EWCs effects on the headquarters (Edwards and Ferner, 2002). There are some exceptions, though. Nakano (1999) has investigated the views of Japanese MNCs' managers. Marginson et al. (2001) have detected a distinctive US home-country effect. The study by Quintana (2001) on the EWCs in the banking sector builds up a *critique* of the Europeanisation framework by including the Latin American operations of Spanish banks.

The external dimension of EWCs is not only of interest for debates on globalisation, but has a more immediate practical relevance in the perspective of EU enlargement. The question is how the EWCs will be implemented in areas with different social, political and institutional traditions than the current EU member states. And more importantly, how they will cope with socio-economic disparities that are unknown within current EU borders.

The EWCs' role in dealing with these tensions at the company level must be seen within the broader tensions that may occur between Western Europe and CEE. According to Ladó, the 'relatively easy formal integration' of CEE social partners within the EWCs will go along the 'presumably growing tensions in the functioning of social dialogue structures', with even the risk that 'the trans-national institutions of social dialogue will be seriously challenged' (Ladó, 2002: 116). In this perspective, the enlargement impact will be felt strongly in the West.

Unfortunately, there is little research evidence available to test Ladó's fears. There are some well-known cases of early, successful EWC enlargement, like at

Volkswagen. Less attention has been drawn to the limitations of such enlargements. In the FIAT case it took more than five years (from 1996 to 2001) to convince the employer to enlarge the EWC to Poland – and the 10,000 Polish employees are still represented by only one, non-elected observer from a minority union. In the Danone case (a highly regarded company for social responsibility) in the first two years the new Polish EWC members used to receive the invitation only in French, the day before the meeting, and with no travel refund (although the situation changed thereafter). The historic ‘Eurostrike’ at Renault in 1997 (widely considered as the best EWC success so far) had a rarely noticed limit: the Slovenian workers did not follow their Belgian, French and Spanish mates. In Slovenia, there is no right to solidarity strikes (which is itself a telling fact), but above all they would hardly feel the need to support their Western colleagues.

The best available research has been carried out by researchers from the University of Lódz on the EWCs in Poland (Rudolf, 2001). Based on interviews with 32 EWC Polish members in 18 different companies, it provided a picture of the situation from the point of view of local representatives. Among the interesting findings are the high education level of Polish representatives (typical feature of Polish union officers as compared to their western counterparts) and the EWC domination by Polish unions (especially Solidarity³), which is worth noticing in a country where unionisation is below 20% and unions have been hostile to works councils and any other non-union form of employee representation. No gap was registered between ‘first’ and ‘second category’ EWC members, i.e. between EU and applicant countries’ representatives, although cases of interest divergence appeared.

³ In Poland two main union confederations operate: Solidarity and OPZZ (*Ogólnopolskie Porozumienie Związków Zawodowych*, All-Polish Union Alliance, post-communist). Our research confirmed Rudolf (2001) findings that Solidarity is the most represented union in EWCs.

The important research by Rudolf leaves several issues unanswered: how far has the process of voluntary EWC enlargement gone? Are what are the implications for industrial relations?

How many EWCs have ‘enlarged’ themselves?

According to the European Commission (EC), drawing on European Trade Union institute’s figures, ‘the participation of workers’ representatives from candidate countries in (...) European Works Councils remains very small’ (EC 2002: 118). The share of companies operating in applicant countries that have taken on board local workers’ representatives, either as observers or full members, is less than a fifth. The figure ranges from 10% in Estonia to 27% in Slovakia. In Poland, according to the EC only 23 out of 206 companies with European Works Councils, that is less than 12 per cent, allow Polish representatives to participate.

Such estimates are always approximate. Our research tested the estimate of the Polish presence in the EWC through the use of local data, trying to achieve a more dynamic picture that distinguishes between degrees of EWC integration (Table 1). For this purpose, three databases were cross-analysed: the database of the 500 largest foreign investors, from the governmental Polish Agency for Foreign Investors (as at June 2001); the European Works Councils database, from the European Foundation for the Improvement of Living and Working Conditions (1999); and the Solidarity database on the Polish representation in EWCs (June 2001). In this way, a population of 113 companies with EWCs was selected from among the 500 largest foreign investors in Poland.

Within this group, according to Solidarity data, Polish workforces are fully represented in their company’s EWC in 14.2 per cent of cases (16 companies); in

further 22.1 per cent (25), they are represented only as observers; in 21.2 per cent (24), either the issue is being negotiated or there are informal contacts between EWC and Polish unions. In the remaining 42.6 per cent (48 companies) no links between EWCs and Polish unions are known. These figures are provisional, and should be treated with caution. MNCs outside the 500 largest foreign investors in the country are not considered, and there may be some cases of EWC integration unknown to Solidarity, although they must be rare given the three years of meticulous data collection behind it.

This estimate is different from the EC figures for two main reasons. First, it evidences the existence of an additional significant group of companies where informal contacts exist or the EWC enlargement is being negotiated. Second, the degree of integration appears to be higher. The absolute number of documented EWC with Polish members or observers is 41 instead of the 23 given by the EC/ETUI. In relative term, the difference is even sharper, since the denominator (only large investors) is about a half smaller: 36.2 per cent instead of 11.2%. If using the EC total of investors with European Works Councils (206), the percentages will be only 19.9%, but this would hide that in many cases the absence of Polish representatives may be primarily due to the extremely low number of Polish employees – many of these investors surely only have representative offices in the country.

[TABLE 1 HERE]

Overall, given the currently voluntary nature of EWC ‘enlargement’ into non-EU countries, the scale of Polish involvement is considerable: one has to remember that even within the EU, EWCs still exist only in a minority of cases: according to the

European Trade Union Confederation, in 2002 there are about 700 EWCs in 1874 companies falling within the scope of the EWC Directive. Outside the boundaries of the EU, only 24 cases of ‘global agreements’ for employee representation in MNCs are known. Therefore, the 65 companies where Polish employees have a sort of link with the EWCs are worth noticing. The trend, already considerable in 2001, has clearly gained momentum after the Copenhagen summit in December 2002 has set the official date for the enlargement: now under the ‘shadow’ of the Directive, by Summer 2003 the number of inclusions has increased to 55, and in 63 further cases contacts have taken place (Matla 2003). The ‘enlargement’ of nearly all EWCs may be expected to coincide with the official EU enlargement.

In the companies: unexpected local and transnational effects

Case studies allow an in depth look at the company-level implications of EWCs. A sample of ten companies diversified on the basis of investor’s nationality, geographic location, economic sector and level of integration with the EWC was selected. Access was obtained in six of them⁴ representing different countries (2 USA, 2 French, 1 Danish, 1 German), sectors (4 metalworking, 1 energy, 1 construction) and different levels of integration with the EWCs (from none to full). In other three companies access was impossible for practical reasons (non-availability of respondents in the research period) while in one (a Swiss food-industry company) management denied access, pretending that the Polish plants were not represented in the EWC (whereas they have been since 1998). All case studies were brown-field. Each case study included interviews with trade union representatives, personnel

⁴ Due to confidentiality obligations, companies are not referred to by name but by an abbreviation indicating the country of origin (Table 2).

managers and (on the phone) with western members of the EWC, carried out between July and November 2001.

Case studies shed light on some complex dynamics at work within EWCs (Table 2). The process of integration follows the path information-negotiation-observer-full membership. However, the exact meaning of the different stages changes. Negotiations can be more or less difficult, lasting from few months to several years. The worst situation was found at GER, where any final agreement seems remote. The observer status may be very different from full membership (no or partial travel cost funding, limited number of reps, etc.) as well as almost equivalent (at FRA2 the Polish ‘observers’ enjoyed even the right to vote).

[TABLE 2 HERE]

The politically highly sensitive issue of relocations did emerge, but on closer examination it was not treated differently from relocations within the West or even within single Western countries (like within Germany in USA1). Nor were relocations to Poland a common occurrence in the six case study companies: actually, there had been more relocations from the East to the West than the opposite. Interestingly enough, the toughest East-West inter-union conflict reported regarded a case of relocation from the Czech Republic to Germany at DK. This apparent paradox should not surprise, considering the important divestments and redundancies foreign investors often carry through when acquiring large post-communist manufacturing operations. Such factories are frequently characterised by low productivity and old technology, so that the new owners often resort to closing down what can be replaced by more state-of-the-art operations in western Europe. In addition, the high import

content of foreign operations in Poland meant that they were creating more jobs in the West than they were destroying.⁵ In this regard, it is also interesting that Polish reps firmly reject, at least in their talks, social dumping strategies, and they are perfectly aware of the risks of a ‘race to the bottom’, since Ukraine or Lithuania are just beyond the border offering even lower labour costs. The Polish unionists see themselves as in a mid-way position between high-wage and low-wage areas, and try to consider both sides of the cost competition problem.

From interviews with both western and eastern representatives, no serious problem emerged in East-West co-operation and understanding, although each group acknowledged they still had too little knowledge of each other’s situation. Only one exception was found. When at FRA2 central management proposed to upgrade the status of the Polish EWC representatives from observers to full members and to increase their number from two to five (according to the proportional quotas agreed in the West), some western EWC members protested, fearing that a large Polish presence could challenge the cohesion of the employee side. In the same company, serious rivalry on relocations and investments had occurred between Italian and Polish representatives, suggesting that in some delicate situations East-West divisions may still emerge.

Western interviewees were slightly more hesitant, adding qualifications on union co-operation in the EWC:

‘there haven’t been *big* problems *so far*’ (GER)

‘mutual understanding is difficult when standards are so different’ (DK)

⁵ This is broadly confirmed by studies on the employment effects on the home countries of FDI into the CEE (Boeri and Brücker, 2001, Gradev, 2001) and into Poland in particular (Domanski, 2001). The OECD (2000) confirms that FDI into Poland has not contributed to export growth as foreign investors have focused on the Polish domestic market. Generally speaking, the trade balance of candidate countries with the EU is heavily negative.

The same sort of qualifications could be found on the EU enlargement:

‘there will be even more strains on wages (...) I agree with the opening, *but in a sensible way*’
(GER)

Nevertheless, they generally acknowledged that before meeting CEE representatives they had feared even worse working and union conditions in those countries.

As far as the impact on Polish industrial relations is concerned, although it was confirmed that the direct substantial impact of EWCs is negligible (like within the EU), two indirect effects were detected.

The first effect – that will be called ‘information effect’ – did not affect decisions directly, but fostered a change in rhetoric, which is not an insignificant factor for bargaining, consent and mobilisation.⁶ While usually foreign investors exploit their Western provenance as a justification for implementing change, and cite western developments to force the unions into a conservative and traditionalist image (on the refrain ‘you don’t know how the world economy and the free market work’), after EWC integration a 180° change occurs. It is now the unions who refer to western practices as models, with management now tending to stress Polish distinctiveness and impossibility of applying western standards. There seems to be a strong correlation between level of EWC integration and nature of the rhetoric (Figure 1). Local managers used frequent pro-West arguments at USA1, where there was virtually no East-West union-contact, implying that Polish trade unions should learn from the West.

⁶ There is already a consistent body of literature on how rhetoric and beliefs have affected Polish industrial relations and led to union acquiescence (Hardy and Rannie, 1995; Ost and Weinstein, 1999; Meardi, 2000 and 2001). More generally, it has been authoritatively argued that HRM importance overall lies not in the ‘objective reality of its normative models and their implementation but in the phenomenological reality of its rhetoric’ (Legge, 1995: 84).

‘Polish labour law is pro-union. On the Polish scene, whatever happens, trade unions always rule’ (USA1)

Managers used to mention Western models to criticise the Polish reality also at GER and USA2, where the Polish participation in EWC was still hampered by company non co-operation.

‘Western trade unions care about unemployment, defending jobs; Polish unions don’t, they just demand higher wages for those who have jobs’ (GER)

‘Polish trade unions are privileged (...) Polish labour law is too rigid’ (USA2)

But in these two cases the situation was already changing. The USA2 manager had to acknowledge that in Western Europe labour law is not that flexible, and at GER it was the union to charge management with ‘using Stalinist methods’. The communist insult was returned.

The situation, finally, changed completely when the unions had stable contacts with their western counterparts. Here, it was the trade unions to enjoy mentioning western realities to censure local management as backwards. EWC members expressed admiration not only for western social standards in general, but more precisely for union rights and sector-level collective bargaining.

‘Just when we went to the meeting in Germany, a strike was going on down there; witnessing the strike was the most interesting experience for us, I don’t know whether it was good for the company [that we were present]’ (DK)

The reaction by managers was to say that comparing makes no sense.

‘Unionists compare all the time. We do not, because we keep in mind that the conditions are different’ (DK)

‘Comparisons occur, but from the union side, and also from posted workers. Comparisons often lead to populist slogans, but fortunately not yet during negotiations’ (FRA1)

The process of rhetoric reversion was achieved when managers started to praise Polish unions as compared to the Western ones. The following statement is exactly the opposite of that from the GER manager mentioned above.

'Here people understand that unions should not damage the company, while there [in the EU] what dominates is economic radicalism. Poles have nothing to learn from western trade unions'

(FRA1)

More substantially, although a systematic comparison of collective agreements had been done only at DK, Polish unionists were particularly interested in comparing not wage levels (they were perfectly aware of wage harmonisation infeasibility) but wage inter-firm differentials, which are in Poland two or three times larger than in Western similar operations, and non-monetary employment conditions like health and safety. At FRA1 Polish unions managed to push through some new arrangements by arguing that they already existed, and worked, in western plants. This suggests that the 'coercive comparisons' MNCs operate on employment conditions can also occur in the opposite direction, exerting an upward pressure on work conditions. The EWC are a privileged channel for such upward pressures.

[FIGURE 1 HERE]

These workplace bargaining rhetoric dynamics are associated with different views on EU accession, seen by the unions as desirable but by some managers as 'an unavoidable disaster' involving 'rigidity and bureaucracy, which do not fit with our situation' (FRA1).

The second effect – which will be labelled 'legitimacy effect' – was on the nature of alliances within the companies concerned. Existing literature on EWCs has usually highlighted the scope for (class-based) transnational union alliances against

management, or (country-based) national union/management alliances to defend local operations against foreign plants. However, interviews with Polish union representatives and managers pointed instead to the emergence of new and unusual *ad hoc* alliances: Polish union representatives and headquarters-level management have sometimes made common cause against local Polish management. By complaining within the EWC about local management behaviour, Polish unions were able to persuade top management, which was concerned about publicity and repercussions in the West, to reduce the autonomy of local management in Poland (whether expatriates or Poles). The best example of how these dynamics can affect local industrial relations and challenge local management comes from the European-level restructuring process at FRA1, which had been implemented more ruthlessly in Poland than elsewhere.

‘The problem of foreign companies is actually the Polish management; theirs is excess of zeal, they exert more pressure on employees than it is demanded’ (FRA1, EWC rep)

‘The local rep went to the EWC meeting to complain that here we are excessively zealous because in the other countries they do not restructure in the same way. But how we restructure is our national business, it is not acceptable that the company decides these things centrally. But the unions have a socialist nostalgia for centralism, now it is at the European level.

Responsibility should be at the national level, and the EWC should only be an informative body’ (FRA1, local manager)

While the most important contact for the legitimacy effect was with the headquarters management, it should be noted that any contact with the West has a similar potential. In this regard, it is East-West relations, more than the employer-employee divide, that matter. Most significantly, at USA2 unionists drew a singular comparison between the EWC and western research institutions. While only the

former has an employee-defence function, for the respondents both shared a more important feature, i.e. the western origin.

‘any contact we have with the West impresses the local direction, even the one with you [researcher]’ (USA2)

A related factor is the very low level of awareness about the EWCs among Polish managers: in some other companies included in the original sample they only discovered the existence of such a body from the researcher. Unionists’ better information, together with both the indirect effects described, may lead to a more assertive role for Polish unions in MNCs, although they do not, alone, guarantee a recovery of levels of unionisation (which were either stable or declining in all the case study companies).

On the local management side, both effects pushed them into a defensive position against both EWC and central management. When local management was made of Poles and not of expatriates, such defence took also a national dimension.

‘Some foreign companies have a negative effect on Poland because they try to introduce alien forms of organisation, without considering the local specificity. It takes them up to 4-5 years to understand their mistakes and to give back the responsibility to Polish managers’ (GER)

Surely, this is not necessarily the common trend in all MNCs operating in Poland. Rudolf (2001) mentions an opposite case, where the Polish reps demanded in an EWC meeting *more* autonomy for the local management. However, the novelty and the potentially wide-ranging effects of the processes detected at FRA1, FRA2, USA2 and GER deserve attention for they introduce new, unexpected dynamics in international human resource management within CEE.

Conclusion

Debates on FDI in CEE and on EU enlargement often have, especially in the candidate countries and in the bordering countries, emotional and dramatising tones. The arguments and the findings presented in this paper may serve to allay some of the concerns about the industrial relations consequences of integration between western and eastern Europe. The process of the ‘enlargement’ of EWCs to include Poland is well underway (over a third of MNCs with an EWC have already done so), and has so far been relatively smooth and productive. Polish employee representatives do not differ substantially from their western counterparts in either their ability to engage effectively with the EWC nor in their expectations of the institution. East-West relocations have not proved to be the compelling threat that is sometimes feared, and occur westwards as much as eastwards. This suggests that unionists from the two sides of the former iron curtain may be more likely than some commentators expect to be able to find a common standpoint, since the problem is similar for both. As a consequence, FDI may have not only downward, but also upward effects on social standards and employment conditions.

Generally speaking, the investigation on the Polish case supports the ‘realist’ views on the EWCs: expectations on their role should be downgraded, but also the most pessimistic views of the EWCs as redundant bureaucracies or channels for national union interests. Even though they hardly have any direct impact on substantive industrial relations, the EWCs have a number of indirect effects that can, in the long term, modify the power balance within MNCs.

As to these indirect effects, the investigation has detected two (information and legitimacy) that can both be labelled as ‘short circuits’. These are, however, very different from the ‘short circuits’ often feared with regard to East-West economic

integration. According to such fears, the creation of larger product markets including countries with very different industrial relations arrangements would introduce unprecedented strain on the ‘European social model’.

The ‘short circuits’ detected in the case studies are of another nature. They are caused by EWC hidden effects that make the existing expectations and representations of capitalist labour relations suddenly clash with the actual western reality. These effects are two: the first, the ‘information effect’, modifies or even reverses management pro-western rhetoric. Suddenly, the really existing west becomes a rhetoric resource for the unions. This is similar to what happens at the macro level, where contrary to what could have been expected in the early 1990s the EU enlargement has been supported by the Polish unions but only endured by Polish employers (Meardi, 2002). The second EWC effect, of ‘legitimacy’, is more organisational and allows Polish reps to by-pass local management and to use the newly obtained central visibility and access to the headquarters against it. In both cases, the ‘short circuit’ consists in the sudden interruption of an employer-union tension based on the monopoly by the former of both western rhetoric and authority. Suddenly, the ‘negative’ pole of this tension (the unions) has access to the same ‘energy’: the reference to western models and the contacts with central management.

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	EC 2002 (ETUI figures 2001)		Own estimate (various sources, 2001)		
<i>Integration of Polish representatives</i>	No. of companies	% of foreign investors with EWCs	No. of companies	% of large investors with EWCs	% of foreign investors with EWCs
Full members	{23	{11.2	16	14.2	15.0
Observers			25	22.1	4.9
Negotiating/informal contacts	{183	{88.8	24	21.2	11.7
No contacts			48	42.6	68.4

Table 1 – degree of Polish EWC integration

<i>Company</i>	<i>EWC integration</i>	<i>Inter-union relations</i>	<i>Union-management relations</i>	<i>East-West union relations</i>
FRA1 Metalworking (machinery)	Full members ('95) Promoters: German unions	EWC reps elected by whole workforce OPZZ complains (non represented)	Legitimacy and information effects Joint Polish unions-central management pressure on local management	Case of European-level solidarity action Germany-to-Poland relocation but no conflict
FRA2 Metalworking (consumer products)	Observers ('96), full members ('00) Promoters: German unions	All reps 'S' Management would prefer split 'S' - OPZZ	Indirect legitimacy & information effects No management interest in the EWC	Some western unions opposed PL EWC membership Interest conflict with Italian reps
USA1 Energy	No contact	'S'-OPZZ co-operation	Management opposition and pro-West rhetoric	High expectations Relocation UK-to-PL
USA2 Metalworking (consumer products)	Contacts and negotiations over observer status	OPZZ-'S' joint position on EWCs	Indirect legitimacy effect. Unions prefer foreign to Polish managers	Both-way relocations Interest conflict Germans-Poles, solved
DK Metalworking (equipment)	Full members ('99) Promoter: Western unions Czech representatives also included	EWC reps elected by whole workforce 1 'S', 1 OPZZ	MNC management opposed ('96-'99), local management co-operative	Both-way relocations Conflict on CZ-to-Germany relocation Strengthened link PL-CZ reps Admiration for Western unions, rights, bargaining
GER Construction	Observers ('99) Promoters: Polish & German unions	Alternation 'S' - OPZZ (but 'S' is much larger)	Management opposition and pro-West rhetoric	Disillusion

Table 2 – Six case studies

	No contacts	Observers/Contacts	Full Members
<i>Strong information effect (unions use pro-West rhetoric)</i>			FRA1 FRA2
<i>Partial information effect</i>		USA2	DK
<i>No information effect (management uses pro-West rhetoric)</i>	USA1	GER	

Figure 1