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Employment Relations in Multinational Companies: the Hungarian Case

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The appearance of multinational companies in Hungary has, in general, been greeted positively by public opinion. However, some professionals dealing with multinationals have posed several questions and shown concern with the presence of such companies. Usually their concerns are well founded, but sometimes they are the result of a lack of certain knowledge, or they have an ideological bias (for example, that multinationals are destroying the nation's industry). The most frequently voiced anxiety centres on market sales: namely, there are fears about the apparent elimination of Hungarian-produced goods on the world market. In order to give a more complete picture of the situation it is also necessary to point out those evaluations which appreciate the positive factors of multinationals: the development of different forms of production capacity, the new opportunities for employment, the technological developments, the modernization of the service sector, and the modernization of management methods.

In general, regardless of the positive or negative attitudes, at the moment we have comparatively little knowledge about the activities of multinational companies in Hungary, including information about their policies for manpower resources and, connected with this, labour relations (OECD Seminar, 1993). For example, among the trade unions, only the Vasas Trade Union Federation (iron, metal and electrical energy industry workers) has prepared a 'domestic' assessment of the conduct of management towards trade unions in those companies in Hungary owned by foreigners. In the experience of Vasas, attitudes towards trade unions are varied. The selling-off (privatization) of the former large state companies has created many mixed companies (joint ventures) in which the management has acknowledged the existence of the trade unions in the state in which they found them. In some of these, attempts have been made to develop partnership relations. In others, such as the companies established by means of so-called 'greenfield' invest-

Table 12.1 *Attitudes of foreign employers toward the trade unions*

Name of company	Nationality of foreign owner*	Number in the workforce
Positive attitude:		
Ganz Ansaldó	Italian	1500
Elektrolux-Lehel	Swedish	2500
Ganz Mérôgyár Ltd	French	600–700
ABB Láng	Swiss	600
Packard Elektrik	German	600
Laing Gépgyártó Ltd	German	200–300
Negative attitude:		
GB Ganz Tüzeléstechnikai Ltd	Italian	50
Comasec Respirator	French	170
Knorr Bremse	German	250
General Motors Hungary	US	500
Magyar Suzuki Co	Japanese	500
Celba Ltd	Austrian	100
Orosházi Mezôgép	US	600–700
Indifferent:		
Siemens-Terta Ltd	Austrian	700
Schmidt und Bender MOM Hungary Optikai Ltd	German	200–300
Magnetek Hungary Villamosgépgyár Ltd	US	150–200
Kromberg és Schubert	Austrian	100
BRG ELSA Ltd	Dutch	100

* The share of the foreign ownership in each case is dominant.

Source: Analysis of the Vasas Trade Union Federation, January 1994.

ments, managements have tended to question the *raison d'être* of the trade unions, and have often not acknowledged them as legitimate social partners. Obviously, such managements take industrial relations seriously, but they are of the opinion that the participatory bodies for employees (such as the factory council) can serve as a substitute for trade unions. The managements of the third group of mixed companies seem to be indifferent with regard to labour relations with employees. So far, they have not seen it as important to develop cooperative relations with employees, and have not established proper bodies for the protection of the interests of labour.

Table 12.1 demonstrates clearly the attitude of the managements of certain joint ventures towards relations with trade unions, according to the Vasas trade union survey.

In this chapter we discuss two contrasting examples of how foreign firms are managing labour relations in Hungary as illustrations of the effects of previously established practices and institutions on transformation processes. In general, the organizations established by 'greenfield' foreign investments can be seen as distinct from the former state-owned companies which have been 're-established' by being sold off. In the first case social-organizational relations have to be established from zero. In the second case, with the organizational changes which go along with the change of ownership it is necessary to take account of the earlier interest and power relations used for solving conflicts, as well as the more permanent social and cultural traditions.

We have chosen the Magyar Suzuki company to illustrate the operation of a multinational company of the greenfield investment type, and Aeroplex Ltd to represent the other extreme with a well-developed union structure and a highly conflict-ridden relationship between the social partners which led to the only strike in a joint venture established by multinational firms.

Before examining these two cases we will provide some details about the progress of other foreign investments in Hungary and other former socialist countries, as well as some important characteristics of the development of Hungarian labour relations as an indication of the general context in which they developed.

Foreign Capital Investment

There is a sharp debate among experts over the extent of the penetration of foreign capital in Hungary. If we consider the privatization conducted by the AVÜ (State Property Agency) company, then we are able to speak about 10 per cent of ownership being in the hands of foreigners. If we examine the measurement of incoming capital according to the banking system (which includes greenfield investments, the raising of capital and privatization), then we find an approximate figure of US$5.6 billion. Yet according to some experts the figure for foreign capital arriving in Hungary over the past few years is much greater than that. This is because the statistics published by the Hungarian National Bank do not include the capital equipment contributions, and do not consider secondary capital transactions – for example, the selling off of shares. It is also very difficult to assess the number of mixed companies. Officially, at the end of 1993 there were 19,722 joint ventures in Hungary. However, in this figure we can find companies that are wholly foreign owned, alongside those in which the overseas partner has only a few thousand Hungarian forints (HUF) invested.

Table 12.2 *Number of joint ventures and stock of foreign capital in Hungary, 1989–1993*

Year	Number of joint ventures with Hungarian and foreign participation	Stock of capital arriving in Hungary in cash (US$ million)	Estimated stock of capital arriving in Hungary in cash and moveables (US$ million)	Estimated stock of foreign capital if – according to the balance of payments – profit eligible for repatriation is reinvested (US$ million)
1989	1,879	215	–	–
1990	5,693	569	1,200	1,200
1991	11,335	2,107	3,000	3,100
1992	15,436	3,424	4,500	4,800
1993	19,722	5,576	6,700	7,400

Source: Hungarian National Bank and National Statistical Office

The number of newly established joint ventures and the stock of direct foreign capital investment are illustrated in Table 12.2. With reference to these details, probably the most reliable come from the multinationals themselves, though even with these it is rather the measurement of ownership which is shown, and the real extent of the operation remains vague. (By means of price accounts and daughter companies, the multinationals publish profits in those countries where the tax conditions are most favourable.)

According to the data presented by the State Property Agency in 1992, investments from the USA were dominant in Hungary (representing 29 per cent of all investments); next in line were Germany (20 per cent), Austria (14 per cent) and France (7 per cent). On the basis of partial data from 1993, it seems likely that Germany is now the biggest investor in Hungary, with Austria, the USA, Italy and France following in that order.

Among the former socialist countries it is Hungary which has attracted most foreign investment. There is no doubt that the reforms of recent decades have played a role in this. It was in this part of the whole region that the investors found the most up-to-date laws of association, a bank system and a capital market. The investors have been attracted by the relatively high-skilled work-force, the – relative to Western Europe – low wage bills, and the lower costs of infrastructural development. Although the data for 1993 show that Hungary's favourable position has weakened (because it seems that Poland, the Czech Republic and Slovenia are

Table 12.3 *Foreign capital investments in Central and Eastern Europe*

	Growth of foreign capital investment (US$ millions)				
	1989	1990	1991	1992	1993
Slovakia	5	20	53	130	350
Bulgaria	10	20	100	130	350
Romania	20	18	187	240	221
Ukraine	10	50	100	280	520
Poland	60	88	470	830	1100
Czech Lands	10	166	200	1210	1100
Hungary	120	311	1538	1317	2000
Slovenia	163	500	600	700	700
Total	398	1173	3248	4837	6341

Source: East–West Investments and Joint-Ventures, UN ECE, Geneva, 1989–1993

closing on Hungary) its relative advantage is still apparent, as is shown in Table 12.3.

In Hungary, the majority of mixed companies formed with the participation of foreign capital investment have, up to now, mainly changed the ownership structure and – albeit to a lesser extent – the process of enterprise activities. Major changes in 'operational capital' usually appear when the moment comes for extending production capacities by raising the form of the basic capital. For example, 40 per cent of the shares of the Chinoin pharmaceutical company were bought by the French firm Sanofi, but in the first instance this resulted in nothing more than slight structural modifications for the Hungarian company. In the next stage, an increase of basic capital investment occurred, and US$10 million of this increase contributed to the development of production capacities. A similar example is when General Electric bought shares in the Hungarian Tungsram electrical company.

General Characteristics of Company-level Labour Relations in Hungary

Before looking at certain examples of labour relations in multinational firms, we want to outline the key characteristics of trade union participation in enterprises at the beginning of the 1990s. Our observations are based on the results of studies carried out in Hungary by the Japanese Institute of Labour in the summer of 1992 and the spring of 1993. The most important finding of the research was that – despite the appearance of large-membership trade unions in the wake of the political system change, and despite the changing strengths of the political, ideological and personal rivalries – at the company level, cooperation between employers and trade unions remained the dominant feature. This cooperation was influenced by the structural and circumstantial conditions of the economic recession, especially with regard to protection of employees' interests and improving the survival chances of companies.

The company-level cooperation of trade unions and employees has a very long tradition in Hungary and among the relatively permanent conditions that existed under state socialism was the employees' distinct tradition of dual loyalty (Makó, 1993). In other words, the employees supported both the company leadership and the trade union. The management and workers (trade unions) organized themselves into a coalition of interests in a continuing struggle with central organizations (ministries, etc.) over the distribution of centrally supplied resources – although they were often allied with these central organizations as well. The cooperative connections between management and workers in defence of their perceived common interests at the company level were also characteristic of the other former socialist countries. For example, in Poland, as Tatur reports in Chapter 8, workers tend to identify with 'their' firms and enterprise survival is a central goal for most employees.

In the analyses carried out by the Japanese Institute of Labour, a decisive majority of the enterprises involved (85 per cent) had some form of worker interest representation, and among these the greatest influence came from the state socialist – but restructured and renewed – trade union confederation (Hungarian Trade Unions National Federation, MSZOSZ). In terms of the topic of labour disputes, privatization and recession have caused major changes. As Table 12.4 indicates, under the state socialist regime most disputes were concerned with wages and other rewards, as well as the organization of work.

Nowadays, besides the still important question of wages, we find privatization, reorganization of companies and, in connection with these, employment protection (included here are redundancy procedures and the circumstances of redundancy). It is these points that have moved to the centre of disputes.

Another current feature of labour relations is that the trade unions still search for cooperation with management, although this can be upset by such things as cuts in the workforce. For example, from among the trade unions affiliated to MSZOSZ, although 20 have rejected any cutbacks in the workforce, a majority (99) have accepted them and a significant number (64) have even supported

Table 12.4 *Changing topics of labour disputes*

Subject of dispute	Before 1990	1990 and after
Reorganization of the company	96	117
Implementation of privatization	30	114
Introduction of worker ownership	24	109
Safety in the workplace	85	175
Wage issues	245	213
Other allowances, not including wages	196	158
Work schedule and sharing out of shifts	84	54
Work time (overtime)	84	64
Redundancy payments	39	122

Source: Research carried out by the Japan Institute of Labour (JIL), Tokyo, 1992

Table 12.5 *Strikes in Hungary and Poland*

	Number of strikes			Number of those participating in strikes (in thousands)		
Country	1991	1992	1993	1991	1992	1993
Hungary	3	10	17	250	25–30	20
Poland	305	6362	7362	221	730	382

Source: Csaba Makó and Agnes Simonyi, 'Participation on Firm Level in the Transformation Process', Paper prepared for the XIIIth World Congress of Sociology, RC No. 10, Session 7, Bielfeld, Germany, 18–23 July 1994

cutbacks. With respect to the first of the independent trade union organizations to be formed – the Democratic Trade Unions National Federation (Liga) – it had one affiliated member organization which rejected workforce cuts, while the others demonstrated the acquiescent or even supportive attitude found within the circle of trade unions involved with those companies included in the national sample.

At both a national and local level open conflict was not characteristic of labour relations. The numbers of strikes and those participating in strikes are much lower in Hungary than, for example, the numbers occurring due to the construction of a market economy in Poland, as is shown in Table 12.5. The low number of strikes does not indicate that there are no workplace conflicts, but suggests that among the forms of employee participation (direct and indirect) it is the peaceful solutions that are preferred. In the majority of strike cases, the employees spoke about the 'non-cooperative' behaviour of management.

Factory Councils instead of Trade Unions: the Example of Magyar Suzuki Corporation

The extent of Japanese capital investment in the former socialist countries of Central and Eastern Europe is negligible. This tendency should be seen in the light of the observation that out of the total amount of Japanese investment, almost half has been placed in Hungary and more than a quarter of that has been in form of investments (US$74.4 million). In addition, almost half the invested total was put towards the establishment of the Magyar Suzuki company.

After almost 10 years of negotiations, in 1990 the founding document of the Magyar Suzuki company showed that Japanese capital would have a 51 per cent stake in the company (Suzuki motor company 40 per cent, C. Itoh 11 per cent, and the International Financial Corporation 9 per cent). With the establishment of the Japanese–Hungarian car factory particular market considerations played a role: (a) at the beginning of the 1990s the average age of Hungarian cars was 10 years; (b) out of three million cars, almost one-third had owners who urgently wanted to replace them; these cars were more than 10 years old and two-fifths were environment polluting two-cylinder cars; (c) after 1990 cars imported into Hungary had a 35 per cent customs duty placed on them. The five-door Swift model and the four-door Sedan model manufactured in Suzuki's Hungarian factory were to constitute part of the company's world market strategy. This was in line with the production of a small car in India, a middle category and a larger Sedan version in Hungary, and a Land Rover-type vehicle (the Santana) in Spain. Magyar Suzuki planned to produce 50,000 units annually, but the plant's capacity enables it to manufacture 100,000 units. At the time of opening the factory, the composition of production in total value was intended to developed in the way outlined in Table 12.6.

The starting plan was based on the assumption that a large-scale modification and powerful rise in the exchange rate of the yen would take place, and in line with this a devaluation of the HUF. The company's 17 billion yen credit stock grew from HUF 10 billion to HUF 16 billion in the first half of 1993. In order to finance the more expensive credit, the company raised the basic HUF capital from HUF 5.5 billion to HUF 13 billion through the Hungarian partner contributing HUF 1.3 billion from the credit of the Autokonszern company (a conglomerate comprising almost 50 state-owned firms), guaranteed by the Hungarian government. When Magyar Suzuki began its operations the Hungarian partner

Table 12.6 *Planned composition of production*

	1992 (%)	1993 (%)	1994 (%)
Japan Suzuki (imports)	70	60	40
Hungarian participation	30	40	60
Magyar Suzuki Co (Esztergom)	20	20	20
other outworkers	10	20	40
Total	100	100	100

Source: Gábor Bakos (1992) 'Japan and Central Europe: New Subregional formation and Japan's presence', Tokyo: The Institute of Economic Research, Hitotsubashi University, p. 33.

had a 40 per cent share in ownership, but after raising the capital this decreased to 25 per cent ownership plus one share. These changes in ownership structure were reflected in management changes, in particular the Hungarian managing director was replaced by a Japanese national.

The significant increase in the exchange rate of the yen also affected the cost of components coming from Japan. Magyar Suzuki protected itself against the increased cost of imports by bringing forward the date on which it was stipulated that 50 per cent of components allocated for production would be Hungarian and 10 per cent West European. This meant that by the end of 1993 the Hungarian production of components in Esztergom represented 20 per cent of the total value, and a further 30 per cent came from other domestic suppliers (where the original figure for the latter had been 20 per cent).

This was also of key importance, because the conditions for customs duty exemptions on exports going to the European Union require that a minimum of 50 per cent of the product should be of domestic origin, and only in this way could Magyar Suzuki be counted as a Hungarian product. Thus the intended exports to the EU started earlier than the actual time planned.

The effect of the investment in employment growth on the labour market – given that Esztergom had a 20 per cent unemployment rate in 1993, against a national rate of 14 per cent – was significant. At full production the central factory (in the town of Esztergom) provided 1000 jobs, while the supplying factories provide employment for between 17 and 18,000 workers. In less than two years of operation the Magyar Suzuki company had contracts with 33 Hungarian supply manufacturers. By April 1993, 150 Hungarian workers had taken part in training at Suzuki motor company's Kosai (Japan) plant, while the majority of employees in Hungary had received training in Hungary itself. Suzuki provided 25 individuals to help the Hungarian management at the company, and likewise 25 other individuals are active in the area of production management.

In selecting the labour force, young (20–25 years), well-qualified applicants had an advantage; at the beginning there were three times the number of applicants than available jobs, but later this proportion decreased. Those Hungarians who took part in further training in the Suzuki plant in Japan criticized the Japanese conditions of work (the daily schedule, the one and a half hours' overtime, meals etc.). In spite of these points, only 15 individuals resigned from the company. The Japanese company management is extremely satisfied with the standard of the Hungarian maintenance operators, and in general they feel the Hungarian workers are too well qualified.

With regard to wages, multinational companies active in Hungary follow two types of strategy. Either they tend to follow the local labour market and take into account comparatively significant fluctuations, or they pay 20–30 per cent more than the average in order to win the loyalty of the labour force. The Magyar Suzuki company has followed the second approach, on the whole. Workers on the production line earn between HUF 25,000 and 27,000 per month, while those involved in production management and foremen receive 20 per cent more than the line workers; apart from this employees are also eligible for a production-related premium. The performance of the labour force is evaluated twice per year – and that applies to both shopfloor workers and management.

In the areas of work schedules and work organization the Japanese company management employs the characteristic practices used with other workforces in Japan (job rotation, QC, etc.). In connection with this the Japanese management has complained that the Hungarians are individualistic and their team spirit is weak (Neumann, 1993). At Magyar Suzuki the regulatory mechanisms and instruments for labour relations are not yet fully settled, nor are the methods for human resource management. In spite of this it is possible to assess the characteristic attitudes of the company management towards the trade unions. At the factory the organization of trade unions was present from the beginning. On the occasion of the factory's first anniversary, 7 per cent of the workforce were members of the Vasas trade union. This union had initiated the organization of employees' interest representation from outside the factory. The company's management does not have a friendly relationship with any trade union; besides other things, this clearly illustrates that so far the management has not felt the lack of such a partner with whom it could make a collective contract, as regulated in the stipulations of the new Employment Law. Additionally the Suzuki management has banned the gathering of trade union members on the premises of the company. In the view of one worker:

> We need to realize that we cannot act upon our interests with any meaningful results if we do not have a trade union. One year ago this autumn we announced ourselves at the company, but they didn't even allow the regional trade union leadership into the factory, because they said it is a custom-free area, and thus an organization from outside the factory cannot start organizing within it. (Worker, trade union leader, quoted in *Népszava*, 1 October 1993: 4)

Not only has no place been given to the trade union, but the newspapers which are usually pinned on the wall in the factory – and which it had been promised would be allowed – were, in the event, prohibited. In reply, the trade union arranged a meeting of workers in the dining room of the neighbouring premises of the former Ecom company. The basic membership of the trade union was almost doubled to 200 because of the effect of the meeting. The trade union's main purpose was to persuade the management of Magyar Suzuki to establish fair labour relations, not to adopt an uncompromising position. The car manufacturing branch of the Vasas trade union laid down that a collective agreement could be linked up with their own.

Nevertheless, the company management demanded that the employees should participate in any decision in line with the management's own requirements. Without this it was felt to be impossible to create guaranteed, undisturbed production in which there would be a two-sided – top-down, bottom-up – communication structure. This explains why a Works Council was brought into existence in Magyar Suzuki in October 1992, although elections for the Council only took place early in the summer of 1993. With reference to all this, one of the leading managers of Magyar Suzuki announced:

> the Works Council is perfectly appropriate for establishing the paternalistic model of Japanese management in Esztergom. (in *Heti Világgazdaság*, 21 August 1993: 81)

The nine-member Works Council sits monthly, and it mainly deals with such issues as the production plan, training and wage increases. Although the Works Council is not an interest-protection body, and its regulations do not state that it has such a purpose, in Magyar Suzuki it does in fact provide several interest-protecting functions:

> We are not involved with interest-protection, but even so we have achieved much in that direction. We have installed an extremely expensive extractor system at the end of the production line, where the

> motor engines are tested. There are many workers who commute to the factory and we have solved their problems by using our own and hired buses. However, the main question – in fact, I can say the key question – is that of wages and bonuses. For a gross wage of between HUF 16–19 thousand the employees have to fulfil hard and highly quality-oriented tasks. I think that this will be the most important issue facing the increasingly strong trade union. (Worker, Factory Works Council member, in *Népszava*, 1 October 1993: 4)

The central point of the friction between management and labour is the question of basic wages. The bulk of the workforce is aged between 23–25, and they receive a monthly basic wage of HUF 17–18,000; it is virtually impossible to live on this (in 1993 the Hungarian subsistence level was reckoned to be HUF 13,459). This is why the trade union is attempting to reach agreement with the Magyar Suzuki management over average wage rises on a sectoral basis, index linked to achieve a balance with high inflation, and the alleviation of social problems. However, the company management does not favour index-linked wages, and they are trying to emphasize that annual wage rises should take account of the hours spent at work and productivity. At the moment, the ability of the Suzuki management to impose its preferred system of labour management and rewards remains in doubt because of the strength of institutionalized expectations and revitalized labour organizations.

Transformation of State Property without the Participation of the Employee: the Example of the Malév and Lockheed Joint Venture

Establishment of the Joint Venture

So far there has only been one instance of a strike in a multinational company operating in Hungary. The strike that broke out at Aeroplex Central Europe (ACE) originated largely from the way privatization was achieved which forced the workers to initiate a strike in which they put their own jobs at risk.

At the end of 1990, the management of the Hungarian Air Transport Company (hereafter Malév) began negotiations with the US company, Lockheed Aircraft International Service (hereafter Lockheed), on the possibilities of establishing a joint venture company for aircraft repairs and maintenance. In February 1991 it was officially announced that a proposal of intent had been signed with regard to establishing the joint venture. The two companies each contributed 50 per cent of the basic capital to establish a limited liability company whose main task would be the maintenance of all Malév aircraft, as well as the aircraft of other airline companies. The joint venture's other purposes were to modernize the methods of aircraft maintenance, to introduce modern management and working methods from the US partner, and to acquire accreditation and licences from the aircraft authority representing the most advanced Western countries – namely, from the FAA.

The Malév workers and their representatives in the trade unions were offended by the fact that the company's managing director made decisions about the joint venture without even informing them, let alone seeking their agreement. In the opinion of the workers, this happened because he wanted to sell the company's secure market position and a good labour force to the joint venture company for – by Western standards – a ridiculously low price. As a result, the workers and trade unions attempted to find out from the Malév management whether they negotiated with any other possible partners, and on what basis they had opted for the US company; they also wanted to know how all this fitted in with Malév's plans with regard to privatization, which were being discussed at that time. The trade union sent more than one letter to members of the government in connection with this matter. For instance, they wrote the following to the Transport Minister:

> For the past 7–8 months we have heard all kinds of things about the future of our company. We have read seemingly contradictory information serving various different interests. At the same time nobody has asked the collective of the company about any of these things. The collective has not even been asked what it thinks about the matter, or whether it has any suggestions to make.

Beside the issue of the establishment of a joint venture, disputes arose between the workforce and the management over the plan for privatization. The trade unions and management were united in their judgement on the need for privatization; however, they were divided on how its implementation should be realized.

The trade unions were strongly critical of the proposals which had been prepared for the economic policy makers in the government. They believed that before the privatization of Malév took place, it would be necessary to decide on the methods which would ensure that the whole process served the strengthening and maintenance of national property. In particular, they wanted the ownership partner to guarantee that they would be able to protect long-term job opportunities for the workforce, and upgrade the conditions of work and living standards. It was only in this spirit that the trade unions would accept the establishment of the joint venture for aircraft maintenance.

Malév's then director-general initially conceived of the foundation of the joint venture as constituting a partial privatization of

Malév, but the trade unions found out that the proposed Lockheed-Malév Ltd could not be regarded at all as constituting a (partial) privatization of Malév in accordance with Hungarian legislation in force, but simply as the establishment of a new economic association.

Advisers to the unions also pointed out that in the planned joint venture the whole of the technical and aircraft repair capacity would fall outside the process of privatization. In as much as the employees of Malév could transfer to the new joint venture before its foundation, they could also lose several rights guaranteed by law; among other things, they would have to stay completely out of the process of privatization and would lose the opportunity to buy worker's shares. Furthermore, the experts showed that Lockheed's planned activities – with much lower than necessary investments – seemed to be aimed at achieving a significant market position at a cheap price, in order to have economic-political advantages in the region, and would devalue the 'remaining' Malév, because the joint company would be managed by Lockheed staff. Nobody else would be able to repair their aircraft, so that the national airline and, in time, the only international airport in Hungary, could become dependent on Lockheed at a ridiculously low price.

The Lockheed case posed a serious decision-making dilemma for Malév's trade unions, for workers did not in general question the need for such a joint venture. Accordingly the trade unions negotiated with the Malév management, but also tried to assert their rights politically. In several cases they lodged written protests with the State Property Agency (SPA) and the Ministry of Transport, Communications and Water Management (MTCWM). Several issues concerned the employees and trade unions: what sort of chances would there be for the joint venture, considering that its establishment was not going to bring any significant technical development? How would employment chances develop in the future: would there be mass unemployment? Before the establishment of the joint venture, in the technical area there were almost 1150 principal workers, yet Lockheed had suggested that about 900 principal workers would be adequate. Was there no danger that the given technology and cheap labour force would encourage the US partner to prefer less well qualified personnel to do lower paid tasks (for instance, the work of a fitter)? Those workers who could speak English were retrained so that they could handle the Boeing aircraft, and those who were still able to sell their abilities were all right; however, the others were placed in a disadvantageous situation. What would happen to wages if the earlier practice of overtime and other part-time opportunities were abolished?

The effect of this was that, on 21 January 1992, representatives from the above-mentioned authorities and Malév discussed the matter of the joint company in a committee established specially for the purpose. In the negotiations, those representing the employees repeatedly indicated that notice should be taken of their demands in the planned contract (that is before its signing). If their legal rights were not suitably recognized they did not want the final contract. The ministry and the management of Malév gave a promise at this sitting. Thus it was with astonishment and outrage that the workers learned that after this the Malév managing director had signed – in Budapest on 24 January 1992 – the relevant contract for the establishment of the joint venture with the representatives of Lockheed, without any agreement with the workers.

After all this, it is understandable that the contract that brought Aeroplex into existence became the centre of conflicts between the management and those representing the workers' interests; moreover, somewhat later it caused quarrels between the two ownership partners. On 5 February at a trade union roundtable meeting there was unanimous agreement that a protest should be made against the methods that had been used, and it was announced that in connection with the establishment of the joint venture the employees' side would accept no responsibility whatsoever. In spite of the protest, on 6 February Malév's legal representative handed in a request to the court for company registration, asking for immediate registration of the joint venture, which the court proceeded to give. Therefore, Aeroplex of Central Europe Ltd (ACE) was formally established.

Incidentally, the trade union roundtable of 5 February can be regarded as the Malév trade unions' and the aircraft technicians trade unions' last action together. In 1989–90, as with the rest of the country, a fragmentation of trade unions took place at Malév. Practically all the trade union federations that had been affiliated to MSZOSZ remained with that organization; additionally two other trade unions which were close to the liberal Independent Trade Unions Democratic League (FSZDL) were established. One of these unions allied itself with the new US–Hungarian joint venture. Two other trade unions were also set up, the pilots' union and the air stewards and hostesses' union (neither of these affiliated to any national federation).

The formation of the joint venture occurred at a time (1991–92) when powerful debates were taking place between the seven largest national trade union groupings over the division of trade union property, and there were also questions being asked about legitimation and representation. These debates prevented the chances of common action being taken to achieve interest representation through a single organization.

The Strike

The room for manoeuvre of those trade unions which came across to the new joint venture company was narrowed down right from the start; this was because their main task of maintenance had been broken away from the mother company. Because the trade union roundtable was not successful, the contract signed between Malév and Lockheed had the effect of unambiguously removing the field of maintenance work from the privatization process at Malév. Those trade unions involved in maintenance (the Aircraft Technicians Independent Trade Union) went on (without the other interest representation organizations) to make a new attempt to have its interests recognized. On 20 March it handed in a petition asking for a re-examination of the foundation of the joint company, and termination of the company due to breach of regulations.

Despite all this, on 30 June 1992 ACE officially began its operations with 840 workers and 6 US managers. The management did not employ the leaders of the trade union who had opposed the foundation of the mixed company, which further weakened the position of the trade union. In the last days of June 1992 the workers of Malév's Maintenance Division called personally on the head of Malév's human resource management centre to cancel the labour contract with ACE, because they thought they would no longer enjoy various benefits due to them as 'Malév men'. Thereupon, when Aeroplex was formed, all workers transferred from Malév received a wage increase of 21 per cent under a one-year agreement. That was not, however, an effective increase, but a compensation for lost benefits formerly granted on a non-regular basis, and as an across-the-board measure it failed to reduce existing disparities in wages to any degree.

In return for the 'wage increase' the employees promised that they would not make any further wage demands for a year. In fact there were no demands for wage increases (except for 20 per cent for the higher management of the firm before the General Assembly of April 1993). It also seemed that the situation of the workers was 'normalized', and the earlier tensions died down.

Meanwhile the privatization of the Malév airline company began: the first steps in this process involved the formation of a so-called 'individual (state) share company'; later 35 per cent of the shares were sold to a foreign partner. This partner was Alitalia, which was the winner in international negotiations involving such applicants as Lufthansa and KLM. The privatization of the company finished in

1993, when the foreign investor paid the purchase price of the shares.

The new management of the Malév share company, in contrast to the earlier management, did not view the Malév–Lockheed agreement as being unambiguously positive, and on more and more occasions expressed their dissatisfaction to ACE that the repair-maintenance deadlines were not being kept, and were leading to flight delays. In July 1993 Malév publicly announced that ACE was not operating well, and this was causing flight delays and damage to the standards of the airline company's services:

> According to Malév's timetable their flights and other charter flights faced significant delays yesterday. For example, the flight to Istanbul arrived eight hours late . . . the Aeroplex company (the Malév and Lockheed joint company) does not always observe deadlines for maintenance of Malév aircraft. Yesterday Malév held a meeting about the situation that has emerged, when the delays demonstrated that the theme was timely. ('Malév is delayed', in *Népszabadság*, 23 July 1993)

According to Malév's account the delays were increasing at a worrying rate; in 1992 18 per cent of flights were delayed, in 1993 the figure stood at 22 per cent. The average duration of the delays went up from 34 to 40 minutes in the same period. Of these delays, in 1992 31 per cent could be put down to mistakes made by Malév, in 1993 this figure was 37 per cent. However, during that time Malév's total number of aircraft increased, the older planes were becoming even older, and there was a greater number of flights. It was argued that this implied a bigger task for the now separate technical base where, compared to the earlier position, almost 150 less people were employed.

In connection with the delays, Malév claimed that the Malév–Lockheed contract was not advantageous from Malév's point of view. This was because the repair company's work was to a large extent not accountable in terms of time, and thus it was not of paramount importance for Aeroplex to meet deadlines. The main source of the problem was that the so-called 'line maintenance' was not in Malév's hands, and therefore the necessary technical background to ensure the flow of daily air traffic was also out of the control of the airline company. This is why it was suggested that, in the future, it should be Malév's own specialists who would rectify the problems; for this a suitable apparatus needed to be created.

Malév's supervisory committee, in cooperation with Alitalia, began to re-examine the contents of the contract between Aeroplex and Malév. Meanwhile, on 30 June 1993, the 'wage moratorium' that ACE had agreed with the workers at the time of its foundation expired. According to the trade union it was owing to the mistakes of the management of Aeroplex (due to their poor preparation) that an agreement on a collective contract had not been made. Thus the Aircraft Technician's Independent Trade Union (RMFSZ) could see little sense in wage negotiations. On 15 July the trade union announced that, independent of the collective contract, it would begin wage talks, and it put in a request for a near 200 per cent wage increase (as opposed to the company's suggestion of a 14 per cent rise). On 2 and 3 August the management's offer was raised to 18 per cent. The employees' representatives worked out their own scheme – which the company management accepted – in which they insisted on a HUF 30,000 monthly minimum wage.

The RMFSZ held that a differential wage rise would only be acceptable if it noticeably decreased the earlier discrepancies. On this basis the workers delegated representatives who worked out a set of criteria which paid attention to the norms recognized for aircraft mechanics in international practice. They were not able to establish much else because there were no job description agreements with the company, nor were there any regulations for organizational operation. In 1993, in order that every worker fully received the pay according to the criteria accepted by the management, it would have been necessary to implement a 150 per cent increase in the overall wage bill. According to the spokesman of the Aircraft Technicians Independent Trade Union (RMFSZ):

> They inherited this tension-filled wage system from Malév, on the basis of which there exists within one sphere of work activity wages ranging between HUF 20,000 and HUF 60,000. (*Heti Világgazdaság*, 21 August 1993: 80)

On 5 August the management of ACE worked out a wage development package, according to which wage levels for the workers would be 'fixed' until the end of 1994 on the basis of the following: 18 per cent immediate wage rise (from 1 July 1993); 10 per cent from 1 January 1994; 10 per cent from 1 July 1994.

The following day the trade union handed in a proposal which demanded a 90 per cent increase from 1 July 1993, a 30 per cent increase from 1 January 1994, and a 20 per cent increase from 1 July 1994. On 7 August ACE raised the 1993 wage increase by 20 per cent. In a workers' assembly on 11 August the trade union agreed to a seven-day 'cooling-off' period, and in the case of unsuccessful negotiations raised the prospect of a strike. On 18 August a workers' assembly was once again organized by the trade unions. Here the interest representatives announced that the negotiations had been totally unsuccessful, but in spite of this they did not call a strike, postponing this step for an indefinite period. According to the trade union, Malév wanted to use the wage dispute and the strike to break up the contract with Aeroplex. Malév brought in English mechanics, and on 23 August announced that if the trade union (RMFSZ) did not withdraw its strike threat by midnight, then Malév would ignore all wage proposals made so far. In reply – the seven days having passed – on 24th August at 6 pm the ACE workers ceased work and declared that their wage demand for the year was 50 per cent, and that the wage rise for 1994 would be left open. The negotiations of 25 and 26 August did not produce any results and the strike proceeded with almost 100 per cent support.

Yet on 27 August the ACE workers suspended the strike for an indefinite period because they did not want to be held responsible for the inadequate condition of Malév aircraft, or for any accidents which might occur because of such inadequacy. Prior to this the Transport Workers International Federation labelled the employment of English mechanics as serious strike breaking, and MSZOSZ and the Federation of Workers Councils criticized the employers' actions in similar fashion.

The strike and especially the strong support of the trade union federations for the action put pressure on the Malév management to change the negative attitude it had shown in earlier talks and so the trade union achieved its main purpose in the follow-up negotiations – that is the ability to take part in decisions affecting the company. After this, strong skirmishing took place for four days concerning the level of wage rises, which finally resulted in the trade union accepting a wage offer of 34.6 per cent. This amount was well below their original expectations, but knowing the financial situation of Malév, Lockheed and Aeroplex, they realized that this was the maximum increase possible.

Lessons from the Strike

Many lessons can be learned from the conflicts that originated in connection with the talks between the management, employees and the trade union representatives of the latter. Among these, and from our point of view the most important, is that the disputes could have been averted at the time the joint venture was established, had the trade unions been treated as partners.

Additionally, there were many arguments inside and outside the company – indeed, even within Lockheed itself – which were against the planned structure of the joint venture company. The strike of the Aeroplex workers showed that there were serious professional and financial problems with the contract between Malév and Lockheed concerning the establishment of Aeroplex. And one of the most significant results of the strike was that, with a clearer articulation of interests, the combatants on the different sides of the barricade woke up to the fact that there was one single possibility for finding a common interest:

> In the past few days everything has come together: the wage question, the grievances connected with the reorganization of a year ago, the uncertainty and fear attached to the future, and the most important thing – the almost complete lack of information and the ignoring of a succession of opinions from the employees. Perhaps the real result of these events is that we cannot make progress without understanding each other. Therefore we need to talk about things, to negotiate, to listen to each other's opinions, and to take stock of the situation before difficult situations emerge. (Aircraft mechanic, leader of the RMFSZ trade union, in *Légiközlekedés*, 21 September 1993: 2)

A further significant aspect of the strike concerns relations between different groups of workers and unions at Malév. Before the maintenance workers' dispute flared up, the Malév pilots held a warning strike for nearly two hours in support of their wage demands on 11 June 1993. The pilots' aim was to achieve wage proportions between the different groups of workers which approached the international average. From many points of view this strike set a precedent which stirred the aircraft mechanics. Although there were plenty of common causes in the background of the two strikes, the essential difference was that the pilots managed to get all the workers of the company behind them, as well as the various differentiated confederations of interest representation groups, who earlier had been rivals.

In contrast, the primary aim of the trade union of the aircraft mechanics was to gain political support and the support of relevant national confederations, rather than a strengthening of joint action of local organizations. The mechanics emphasized the following:

> We were unable to acquire political support through the League; the parties involved were afraid – probably due to the approaching election – that the strike would lead to a nationwide transport strike. By the end of the negotiations it had become clear: every day of the recent strike would have significantly increased Malév's losses, and would have resulted in redundancies at Malév and Aeroplex. There was not one trade union which could accept this, because they also had to think about the fact that, somehow, the employees would always end up paying for these losses. This is why we have to come to an agreement without a strike. (Spokesman of the Aircraft Technicians Independent Trade Union (RMFSZ), in *Népszabadság*, 14 September 1993: 5)

Opposition to the use of strike breakers enabled the RMFSZ to gain the support of the two biggest influential trade union confederations, and this helped them considerably in achieving their aims. At the same time the company-level trade unions and especially the company's other workers did not show any support or sympathy.

Indeed, there was a certain antipathy towards the strike movement, in that a significant number of the airline company's employees felt that the aircraft mechanics' wage demands were exaggerated.

It would probably have produced better results for the employees if the aircraft mechanics' trade union had joined forces with the pilots in pressing their wage demands: if they had not obtained the wage rise then, they could have stopped working. They had asked for a 200 per cent rise, although they had no chance of achieving it; yet Malév workers, especially the pilots, gained sympathy – even though because of the strike their wages decreased. The leaders of Lockheed and Malév stated in Brussels, in March 1994, that they would act to resolve the problems of the joint venture. In the negotiations both sides strengthened their support for Aeroplex and were determined to achieve appropriate growth. It was also because of this that there were talks about the by now controversial contract. Mutual concerns were given greater emphasis, and these common aims all stressed the priority of gradually realizing the aims of Malév.

Conclusions

These two cases show how institutional legacies can have a strong impact on labour relations in foreign-owned enterprises and joint ventures in Hungary, and, by extension, other former state socialist societies. Even in the 'greenfield' situation at Suzuki, the trade unions have been able to attract considerable support from the managerially carefully selected workforce and seem likely to dominate the works council, as indeed is common throughout Hungary. Earlier patterns of interest representation and cooperation between unions and management remain highly influential and the desire for collective involvement in the affairs of companies seems to be a central value for many Hungarian workers. Multinational firms cannot easily impose their own preferred management style and system of employment relations without taking these patterns and values into account.

A further important point which arises from this discussion concerns the relations between different unions at the enterprise and national levels, and the recourse to political support in wage and representation disputes. The fragmentation of the trade unions considerably weakened the power of the mechanics in the Aeroplex case, and they were unable to gain the support of other workers in Malev. However, the use of strike breakers enabled them to mobilize national federation support which was critical in changing management's approach, and which had been lacking earlier. The growing influence of the former socialist trade union federation will probably limit the effects of fragmentation – at least in the larger firms – and increase the significance of labour organizations, but the extent to which national unions will be integrated with and control enterprise-level unions remains unclear. Relatedly, the links between this federation and the socialist party currently in power in Hungary may weaken its support at the local level, as has occurred in Poland (see Chapter 8).

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