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Franchizing Frenchness:  
What social models do  
French-dominated multinational  
companies bring to Hungary?

A comparison of two firms in the  
Hungarian service sector

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This Working Paper is based on research conducted in the framework of a comparative study funded by the DARES research institute of the French Ministry of Labor and Social Affairs between 2005-2008. The initial, broader question of the comparative research was: *How transferable is the French social model?* The research focused on French MNCs and their influence on the evolution of industrial relations in Bulgaria, Hungary, and Poland. The research initiative was led by the Working Lives Research Institute of London Metropolitan University, UK.

## FRANCHIZING FRENCHNESS: WHAT SOCIAL MODELS DO FRENCH-DOMINATED MULTINATIONAL COMPANIES BRING TO HUNGARY?

A comparison of two firms in the Hungarian service sector

Linda Szabo and Violetta Zentai

### ABSTRACT

*This paper applies an actor-oriented approach to examine industrial relations at French-based companies operating in the service sector in Hungary. The service sector is under-researched despite the fact that in recent years there has been a remarkable shift in the proportional distribution of foreign direct investment inflows: more than half of the total capital invested in Hungary has flowed into services. The analysis focuses almost exclusively on how labor relations are explained by the employees and their representatives, which resonates with the literature that proposes to investigate the chances for a revitalized trade union movement in post-socialist Europe. The paper examines five aspects of labor relations: 1) legacy effect: the relevance of trade unions that existed before transition; 2) double representation effect: the role of local work councils in addition to trade unions; 3) European effect: the importance of European Works Councils in constructing a more employee-friendly social environment within firms; 4) sectoral effect: cooperation between local and sectoral trade unions in the contexts of traditionally local-based collective agreements and contemporary EU initiatives; 5) French effect: employee representatives' perceptions of local managers with special regard to their Frenchness.*

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## Introduction

Multinational companies (MNCs) have always been crucial actors as conductors of the economy and thus of the labor market. Today, globalization and the most recent financial crisis (Neumann 2009) have amplified their role. Multinational companies employ an extremely large number of workers, while concentrating and moving capital rapidly and efficiently according to business interests. Many argue against their operation, conceiving of them as “footloose” enterprises that make workers more defenseless against economic exploitation. At the same time, MNCs can trigger economic development: large investments usually lead to further investments, infrastructural advancements, and increase in labor demand. A multinational company may also offer higher average wage rates than small- or medium-size enterprises in the very same industry, though likely with a more uneven distribution of wages among workers.

With the collapse of the state-commanded economic system, foreign-direct investments (FDI) by MNCs facilitated the incorporation of Central and Eastern European (CEE) countries into global capitalism and production systems. Many advocates of neo-liberal market economic reforms argued, and still argue that, the creation of more efficient and sustainable economic development necessitated taking radical steps. This included the privatization of formerly state-owned companies, market liberalization, and industrial transformation – all of which could not have happened without the emergence of MNCs in the region.

Along another conceptual line and normative framework, neo-institutionalists have claimed that multinational capital has the potential to not only create business, but also shape industrial relations. Multinational companies are considered to be socially embedded organizations constrained by the historically evolving national business and production systems from which they emerge – that is, their home country – and in which they operate. Accordingly, they are presumed to represent, at least to some degree, the actual ideal-type model of their home-country’s capitalism.

Scholars representing the neo-institutionalist argument distinguish between various models based on different government policies, business practices, and labor relations. Some rely on the Western European “varieties of capitalism” (Hall and Soskice 2001, Schmidt 2003, Whitley 1999), while others focus on the post-socialist political economic environment (Bohle and Greskovits 2007). Still, these divisions and their applicability in the course of MNC analyses are limited. First, although these models are made to seem coherent, manifestations of work organization in many firms often differ from what the type of capitalism in their countries of origin would imply (Avdagic and Crouch 2006). Second, the models present capitalism(s) as something static, despite gradual transformations that accompany the liberalization pressures of globalization (Crowley 2005, Tholen 2007). This latter process is suggested to be particularly true for Eastern European countries as – in contrast with Western Europe – the established and consolidated national institutions that may withstand global pressures towards uniformity had been missing in post-socialist countries (Bohle and Greskovits 2007).

In addition to these national models, the “European social model” in the sphere of industrial relations can be discerned. This model, reflecting the goal of European socio-economic integration, refers to the guarantee of right to work, to social protection, including the implementation of active labor market policies, the provision of social benefits for the unemployed, and the relatively egalitarian wage and income distribution. It relates to ensuring the right to civilized standards in the workplace, which concerns issues of employment regulation and a high degree of interest representation on parts of both employers and employees, along with coordinated wage bargaining (Meardi 2004). Ostensibly, this model builds on the elements of the German and French varieties of capitalism, which are labeled, respectively, as “managed capitalism”/“coordinated market economy” and “state capitalism”/“Mediterranean-type of market economy”. These are usually designated as the contrasting – still prevalent – varieties of the Anglo-Saxon model of capitalism, whereby national political institutions withdraw from all labor, production, and financial markets, and minimize their roles as regulators of the economy (Schmidt 2003, Crowley 2005).

As per another mode of categorization by neo-institutionalist scholars (Avdagic and Crouch 2006), different countries can be linked to different forms of interest representation, such as pluralism, statism, and (different types of) neo-corporatism. According to this division, the European social model is closer to statism or to certain forms of neo-corporatism than to pluralism. In pluralism, the state's role is limited, and both labor and business organizations are voluntaristic and mainly workplace-based. Statism denotes a pattern in which a pro-active state plays the principal role in policy formation. Its intervention in industrial relations is pronounced, especially in issues like minimum wages, the extension of collective agreements, and the settlement of labor disputes. This pattern has been strongly associated with the French regulatory state. Meanwhile, Germany is conceived of being a representative of a type of neo-corporatism, whereby associations of business and labor are well-organized and highly coordinated. The state intervenes more indirectly, as a facilitator rather than as a leader. Collective bargaining is highly coordinated and takes place predominantly at the sectoral level (Avdagic and Crouch 2006).

At least partly embedded in these nation-specific institutional environments and as flagships of capitalist restructuring in CEE countries, Western European MNCs appeared as potential channels for transferring the European social model (inter alia, Hall and Soskice 2001, Gradev 2001, Marginson and Meardi 2004). Still, many remain skeptic that MNCs could be interested in a process that promotes the organization of workers. They point to the fact that MNCs – as in national capitalist models – are challenged by structural economic changes and increasing internationalization. As such, they advance a “unitary form” of industrial relations, where organized interest representation from the side of employees is impeded at company headquarters, especially in certain sectors and regions of the economy (Avdagic and Crouch 2006). Another possible reason for skepticism is the presumed division of labor within the EU, which leaves relatively low-skill operations in post-socialist countries of Central and Eastern Europe (Bohle and Greskovits 2004). There, workers – unlike their counterparts in Western Europe – are not conceived as potential consumers of the goods produced by the company in which they work. In these countries, production is primarily export-oriented and the rate of solvency is relatively low. Consequently, employees have less power to put pressure on employers to bargain. According to such views, MNCs and dependent internationalization do not improve unionization. This stance seems to be confirmed by the fact that rapidly increasing inflows of foreign investment did not increase the pace of de-unionization in post-socialist states in the second half of 1990s (Meardi 2007).

Another thread of investigations presents evidence of MNCs' potential to transfer social models that is more mixed. Studies introducing an actor-oriented approach – in contrast with the macro perspective of the neo-institutionalists and the neo-liberal paradigm – attempt to explain traces of the restructuring of post-socialist economies as well as the possibilities of diffusing employment practices at a company-level (Bloom et al. 2003, Galgóczi 2003, Geppert and Williams 2006, Gradev 2001, Marginson and Meardi 2006, McCann and Schwartz 2006, Meardi et al. 2009, Meardi 2007, Meardi and Toth 2006, Soulsby and Clark 2006). They apply a micro perspective – similar to a bottom-up approach – which pays more attention to the agency of MNCs' local managers and to the capacity of host-country employee representatives in shaping industrial relations. They account for the interplays between MNCs' host country contexts and the power and business strategies of local and headquarters managers, as well as of trade unionists at CEE subsidiaries. A few scholars (Dörrenbacher et al. 2000, Meardi et al 2009, Marginson and Meardi 2006, Meardi and Tóth 2006) provide examples that both challenge the ideas that continental Western European MNCs would be more willing to transfer labor-protective social models than other kinds of models, and that US- and UK-based companies would likely oppose employees' organization. This approach departs from a rigid institutional path-dependency and argues that firms can and do consciously apply a selective transfer strategy, which is not even deterministically conditioned by the labor division between East and West Europe. This entails the need to reconsider conceptions about the “hybridization” of different social models (Meardi and Tóth 2006) and local trade unions' opportunities to resist MNCs' exploitative activities (Meardi 2007). Still, the structural and institutional conditions must not be overlooked.

This paper aims to contribute to a series of refined analyses that take advantage of what an actor-oriented approach can offer for the investigation of industrial relations at CEE subsidiaries of MNCs. These analyses by themselves cannot be exhaustive, but they are able to provide data on various cases and contribute to a more comprehensive picture that is “sensitive” to local contexts. This paper focuses on French-based companies operating in the Hungarian service sector.

Meardi, Tóth (2006), and others have used Hungary as a focal point of their scrutiny of foreign-based companies. However, those investigations were primarily engaged with German- and US-owned companies. Although France is among the five most important investors in Hungary, studies on possibilities to transfer the French social mode – a constituent part of the European social model – are absent. Case studies to be presented here are to become a start to fill this void.

Further, most existing analyses touch upon manufacturing industries. This may influence what general conclusions are drawn on the significance of certain factors that shape labor relations, such as a firm’s motivation to enter a CEE country, or the position of the labor force when bargaining. The service sector is under-researched in this sense, particularly with regard to studies on Hungary. However, over the last eight or nine years, there has been a remarkable shift in the proportional distribution of FDI inflows: more than half of the total capital invested in Hungary has flowed into the service sector creating numerous new jobs (ITDH 2007). Therefore, this paper serves to develop expertise in this field.

The two case studies to be presented here are based on country research conducted within the framework of a comparative study funded by the DARES research institute of the French Ministry of Labor and Social Affairs. Originally, within the service sector, four different industries – retailing, finance, electricity and hotel – were examined between 2005-2008. The initial, broader question of the comparative research was: *How transferable is the French social model?* The research focused on French MNCs and their influence on the evolution of industrial relations in Bulgaria, Hungary, and Poland. The current paper suggests that this query should be unfolded in a way that, besides the structural determinants shaping labor relations, accounts for both “push” and “pull” factors of transferring processes as well as the relevance of negotiation. It argues that much depends on companies’ business strategies and the extent to which an ideal-type model of the “French social model” is aimed to be reconstructed by management at headquarters and subsidiaries. Also, the will and capacity of local employee representatives to establish a more secure working environment is substantial.

This paper is engaged with exploring how “Frenchness” is constructed at two subsidiaries. That said, it focuses primarily on the perspectives of employees, with relatively little attention paid to managers’ viewpoints. This choice is partly conscious, and partly a result of practical circumstances. With regard to the latter, managers were not easily accessible at the selected firms during the research period. More importantly, the research has focused less on corporate culture and local managers’ power positions vis-à-vis headquarters, and more on the possible pathways of and constraints to changing labor relations from the particular perspective of those who are engaged in grassroots initiatives. This approach resonates with the literature proposing to investigate the possibilities of trade unions to become “revitalized” through bottom-up processes that are saturated by the direct and indirect effects of European policies and standards of conduct conveyed by FDI, with special attention paid to post-socialist Europe (Gradev 2001, Marginson and Meardi 2006, Meardi 2007, Ost 2009, Roderick and Cristescu-Martin 2004).

## Methodological considerations

The service sector attracts firms to Central and Eastern Europe for the purposes of market-seeking rather than efficiency-seeking. Furthermore, labor relations are known to be shaped by a distinction of “Greenfield” and “Brownfield” investment, as discussed by Marginson and Meardi (2004, 2006). Out of the four original target firms of our research, two started as Greenfield investments: one in banking, and

the other in the retail sector. These two cases exemplify how foreign investors may try to circumvent, directly or indirectly, employee representation. At neither of the Greenfield sites could trade unions be established. Rather, in the case of the acquired companies, employee organizations were preserved. Hence, the analysis of Brownfield sites turned out to be richer: there was much more to map here about employee activism.

One of our target firms, *Accor*, operates in the hotel sector; the other, *EDF*, operates in electric power supply. These firms portray a labor-intensive investment and a knowledge-based capital-intensive investment, respectively. This chapter aims to examine the preliminary hypothesis of the original comparative research that, service firms from high capital intensive industries “will see labor costs as less significant, and so will be more ready to develop ‘relatively high cost’ social models” (Jefferys 2005).

We will scrutinize five aspects of labor relations: 1) *legacy effect*: the relevance of preserving former trade unions operating before the start of the transition period; 2) *double representation effect*: the role of local works councils in addition to trade unions; 3) *European effect*: the importance of European Works Councils in constructing a more employee-friendly social environment within firms; 4) *sectoral effect*: cooperation between local and sectoral trade unions with a reference to the traditionally local-based collective agreements in Hungary, vis-à-vis contemporary European Union initiatives; and 5) *French effect*: employee representatives’ perceptions of local managers with special regard to their *Frenchness*.

The case studies we prepared are based on interviews conducted with employee representatives, both at sectoral and local levels, and to lesser extent, with managers, including HR managers and a CEO. In order to account for the contingent transformations of industrial relations, some interviews were repeated during the course of research in both sectors. Hence, in sum, we had nine interviews in the hotel, and eight in the electricity industry.

## 1. French foreign direct investment in the Hungarian economy

Both imports into CEE from France and exports to France from the region have increased since 2004. Three-quarters of French imports into the CEE countries are directed towards Poland, the Czech Republic and Hungary. According to the Hungarian National Bank (2007), from among the A10 members of the EU, after Poland and the Czech Republic, Hungary is France’s third most important partner. France is the fourth most important market for Hungarian goods after Germany, Italy and Austria, and it regularly ranks as Hungary’s fifth most important foreign trading partner.

French investment in Hungary took off in 1995-97 with a major wave of Hungarian privatizations, and was marked by a high degree of experimentation. There are few Greenfield sites, and investment was made mainly through acquisitions by large MNCs. Two-thirds of all French investments are made by ten large MNCs. By the end of 2006, 400 companies, mainly in manufacturing, were partly or fully owned by French capital (Origo 2007). According to the most recent data, these companies employed almost 65 000 people, of whom only a small, though growing number of about 250 are French expatriates. The main industries involved are the energy sector, automotive industry, retailing, chemicals, foods and water management/environment protection. French investors are less present in the hotel and financial sectors (HFCCI 2005).

### 1.1. The electricity industry

In 1995-1996, during the privatization of the electricity industry within the energy sector, six strategically important corporations were acquired by three relevant agents of the European market: two German MNCs have become the electricity providers of the western, eastern and northern parts of Hungary and most of Budapest; the French EDF, with its two Hungarian subsidiaries, operates mainly in the southern regions of the country and the capital city. The latter, EDF (DÉMÁSZ), is the prime focus of our analysis.

The two most recent processes that concern the industry and its employees are the so-called unbundling process and the gradual liberalization of the electricity market, both imposed by EU directives.<sup>1</sup> As for the latter, following the 2001 enactment<sup>2</sup> and the 2007 amendment<sup>3</sup> of the law on electricity market liberalization, from January 2010, the electricity production market in Hungary has become entirely free. This has increased competition between electricity suppliers and resulted in shrinking employment due to efficiency-seeking strategies. Moreover, the operation of an employer representatives' association is constrained by the fact that the other segment of the industry, electricity distribution, is controlled fully by a state-owned company, the Hungarian Electric Works (MVM). Private companies complain that they cannot easily cooperate with the state-owned MVM. This impedes the development of an employers' sectoral organization and a forum for negotiations, through which employees' representatives could voice their claims. The unbundling of company divisions, as the other major process of the industry, results in the fragmentation of the company-level representation of labor interests. This makes workers at sites with fewer employees more vulnerable and the organization of employee interest representation more difficult.

Regarding the short history of labor relations in the industry, in 1995, just after the industry's privatization, a sectoral collective agreement was concluded by all three sectoral trade unions and the Federation of Electricity Companies (VMSZ, later VTMSZ). The Minister of Labor immediately extended this agreement to the whole sector. Since then, the parties have not only respected the agreement, but also annually sign "Wage and welfare policy agreements," which have been regularly extended to the whole sector. Over time, the foreign-owned companies have gained a dominant position in the employer organization. Still, the enforcement of workers' rights is more successful, and the industrial relations are more serious and cooperative than in other sectors of the economy.

In 2003, a Sectoral Social Dialogue Committee was set up. Employees of the industry are much better organized at a sectoral level than other affiliates of the trade union confederation to which they belong. Out of the 57,400 sectoral employees (HCSO 2009), 60 percent are unionized compared to the 16.9 percent average Hungarian trade union density. Nevertheless, it is important to note that the electricity industry lost 49.7 percent of its employees between 1997-2007 (LIGA 2008).

The French presence in energy sector is quite remarkable compared to that in other sectors of the Hungarian economy. There are 12 French corporations with 54 sites (14 in Budapest, 39 in the countryside) across the country, employing 5,214 workers and with an annual income of €1.156 million (HFCCI 2005). In the field of electric power supply, French enterprises have a 35-40 percent market share.

## 1.2. The hotel sector

The speed and scope of privatization was remarkable in the hotel sector as well: huge Hungarian companies acquired the major state-owned companies. Today these are mainly owned by foreign investors. However, there are several medium- and small-sized hotels owned by Hungarian firms. The relevance of those to enlarge the national income of tourism is rising due to the increased attractiveness of the country since the date of EU accession – despite the fact that the market has shrunk slightly in the recent crisis. According to the latest data, in 2008 the hotel and catering sector employed 157,200 people in Hungary, still by 3,000 more than in 2005 (HCSO 2009).

1 Directive 92/96/EC, and Directive 96/92/EC, later repealed and regenerated by Directive 2003/54/EC

2 Act CX/2001.

3 Act LXXXVI/2007.

The sector level workers' union, the Catering and Tourism Trade Union (*VISZ*),<sup>4</sup> succeeded in signing a sectoral collective agreement with the National Association of the Employers in the Catering and Tourism Sector (*VIMOSZ*) in 1997. This agreement was extended to the whole hotel and catering industry in 2001, during the course of a main expansion period (2000-2004). The agreement concerns: the consultative rights of union representatives; questions of overtime and tele-work; severance payments; terms and process of dismissals; working hours and leisure time of employees; remuneration; and compensation in specific cases. In the hotel sector, one of the most relevant policy measures was the introduction of the three-tier guarantee system of minimum wages in 2005. This system creates a higher minimum wage for skilled workers than for the unskilled, which constitutes the majority of labor force in the sector. Also, the introduction of the "service fee" (*felszolgálati díj*), legally charged and distributed among employees, has a somewhat positive impact on wage conditions in the sector.

In September 2003, the Sectoral Social Dialogue Committee for Tourism-Catering, in cooperation with *VIMOSZ* and *VISZ*, was among the first consultative bodies established in the country.<sup>5</sup> Nevertheless, the sectoral trade union density is low (7.9 percent) (EIRO 2005), since many seasonal and young workers are employed in the industry, who have low propensity to get unionized.

Among French firms, *Accor* (*Pannonia*) is the biggest in the sector. The other French company, *Le Meridien*, serves the particular demands of luxury tourism. *Accor* (*Pannonia*) employs 1,049 workers, out of which 40-50 percent are members of the local trade union.

## 2. Cases of two French MNCs in the service sector

### 2.1. The legacy power of trade unionists

One of the general findings from research conducted originally at four firms in the service sector was that managers of French MNC are inclined to negotiate with trade unions only in the case of Brown-field investments. The continuity of local-level employee representation appeared to have effective power, although foreign investors were also committed to encourage social dialogue. As we focus on *legacy effect*, our analysis will review the significance of local trade unionists as well as their power in shaping industrial relations.

Trade unions both at *DÉMÁSZ* and *Pannonia* had been operating before the start of post-socialist transition and remained active afterwards. French owners of the investing companies could not avoid engaging with them due to legal obligations and also to grounded institutional mechanisms. When *EDF* appeared in Hungary in 1995 and when *Accor* acquired the major part of a formerly state-owned hotel chain in 1993, local trade unions negotiated with Hungarian managers, as their employer counterparts. This remained the case at *EDF* (*DÉMÁSZ*) until 2005 and at *Accor* (*Pannonia*) until the end of 2001, when French managers replaced their Hungarian colleagues.

Before 2005 at *EDF* (*DÉMÁSZ*) French managers were present only as "consultants" and lacked specifically defined positions. Hence, until then, employee representatives negotiated labor issues with Hungarian managers, including those who have been their fellow employees and were promoted just after privatization. This situation created a sort of collegial atmosphere that ensured a more informal relationship between trade unionists and managers. On the one hand, sharing a common social-cultural background, this constituted smooth cooperation; on the other hand, it reduced the efficiency of the trade union in cases of conflict. Works council representatives elected from a younger generation at *EDF* (*DÉMÁSZ*) see this legacy as a major impediment to more efficient trade union operation.

4 *VISZ* is a member of ETUC (European Trade Union Confederation) with representatives in the EFFAT (European Federation of Food, Agriculture and Tourism) trade unions. It also delegates representatives into ITUC, through IUE.

5 It took place in correspondence with the 98/500/EC Resolution.

The trade union and works council representatives of *EDF (DÉMÁSZ)* agreed that the high rate of cutbacks in the labor force was a result of rationalization and reorganization, which had to be started immediately after the broad economic transformations, irrespective of the subsequent privatization and French FDI. According to our informants, the system of social benefits and human resources policy had not been radically changed following the acquisition, as the main aim had been to preserve formerly obtained rights. In this term, employee representatives were quite successful; however, they had no significant impact on dismissals. According to a trade union member, layoffs were unavoidable “if the firm wanted to keep its market position in an extremely competitive environment.” The only achievement of the trade union was to introduce a corporate Pension Fund that helped the early retirement of certain employees. The lead trade unionist of *EDF (DÉMÁSZ)* views that this achievement was possible only because they were able to refer to the competing German corporation’s social benefits. Thus, the pension fund was not interpreted as a genuinely “French practice” of the firm.

Despite the fact that any changes in labor arrangements were acknowledged as a necessary process of market liberalization, trade unionists articulate the experience “economic colonization.” They point out the lack of additional investments by MNCs in Hungary and thus, the exploitation of local economic sources. Curiously enough, while foreign investors are conceived as cruel capitalists with the single aim of profit maximization, the responsibility of Hungarian managers abusing certain rights of employees seemed to be downplayed. Namely, the main secretary of the local trade union described such instances as mere consequences of “the higher stress managers have to face,” and “the lack of time to become more informed on employees’ rights due to the competitive market environment.”

As for *Accor (Pannonia)*, the local trade union seemed to be more powerful at the time of privatization. The 1995 act on privatization, in addition to facilitate property change, underscores the importance of employee rights protection in particular in the course of acquisition. Trade unionists of *Accor (Pannonia)* capitalized on this opportunity and defined three conditions of reaching a consensus. These were: employees of the local sites should not be laid off for three years; the former collective agreement (concluded before the economic restructuring) should remain valid; and agreement of the former employer (that is, the state) and the trade unionists on severance payment should be respected. These claims were accepted by the management. However, after the first three years, since 1996, more than two-thirds of workers have been dismissed. To compensate the people concerned, the trade union was able secure a quite valuable severance payment, including for those who were forced into retirement. Meanwhile, participation in training courses has proved to be a crucial selection criterion for workers to stay. Therefore, the trade union tries to promote the training of all workers and suggests that the management should rather keep the workplaces instead of increasing wages. Lead trade unionists several times referred to the importance of keeping “the old brigade” within the firm since younger generations of employees constitute a competitive environment in the labor market of the hotel sector. The trade union seemed to “know everything of everyone,” which develops an “intimate relationship” between the labor organization and the workers.

Notwithstanding, the main secretary of the local-level trade union interprets their current position vis-à-vis the management as “this is not the right time to demand anything.” He portrays them as representatives of the “power of cohesion” that “pragmatically” pledges the smooth operation of the company while assuring certain social rights for employees. The union – quite outstandingly in the Hungarian labor relations context – has a contract with the company and instead of covering costs through membership fees paid by workers, the company funds their operation in exchange of undertaking certain HR tasks of the firm (this foremost means the organization of welfare services). Trade unionists referred to this as “an agreement of two economic organizations, one of which is a for-profit while the other is a non-profit organization.” Lead employee representatives claimed that this kind of “service contract” – which is undersigned each year beside the annual labor agreement as well as the actual collective agreement valid for several years – is beneficial for everyone: “for the company, which can pay for the services provided for the employees from tax-free income; for the 1,049 workers

who can address their individual demands; and the trade union which does not have to adapt to any state-regulated labor representation hierarchy and can act as an individual organization, let alone that the interest representatives at sites do not have to pay membership fees to the central office of the trade union.”.

Although this kind of “service contract” does, at least, challenge the loyalty of trade union representatives towards *Accor (Pannonia)* workers, our interviews revealed that the role of trade union in interest representation should be considered contradictory rather than entirely corrupted. While leaders of the trade union claim they try to act as mediators and approach the task of resolving conflicts of interests pragmatically, they do have strong commitments to the protection of employees with regard to certain issues: in cases when female employees are sexually harassed, which is not an infrequent occasion in the sector, or when someone bullies his/her colleagues based on political convictions, especially grounded on right-wing ideologies. In both of these cases, trade union representatives are ready to apply even “indecent” means – like blackmailing and reporting cases to headquarters – to have the abuser dismissed, regardless whether the perpetrator is a manager. One of the representatives of a central trade union said “harassment can destroy our family.” Lead trade unionists also stated they were against black labor and “guest workers.”

Interestingly, the organization of employee representatives does not want to be a trade union “in legal terms” because then, as the interviewed trade unionists suggested, they should organize themselves by “corrupted state regulations,” instead of organizing themselves “from the grassroots,” based on the “communal cooperation from before 1989.” The trade union meets certain legal requirements to be eligible to sign a collective agreement in compliance with Hungarian laws, but trade union representatives conceive of themselves rather as members of “The Survival Association of *Accor (Pannonia)*,” which “seeks loopholes” in regulation to provide “relative equity” within the firm.

## 2.2. The dual system of employee representation

Since the introduction of the new Labor Code in 1992, the Hungarian system of employee representation follows, at least formally, a German model that divides the responsibilities of representation between works councils and trade unions. The latter have the right to sign collective agreements only if the majority of votes on works council elections are obtained. Therefore, even if works councils, in contrast with the German model, are not granted strong co-determination rights, but rights to information and consultation, trade unions do have interest in cooperation with the councils, or the worker representatives operating at sites. This form of labor division between the two channels of employee representation, which we will refer to as *double representation effect*, is harshly criticized by many scholars. Accordingly, it cannot fulfill its original aim to provide a solution for trade union fragmentation and representation crisis during the transformations, nor could it create voice for employees in non-unionized workplaces (Galgóczy 2003, Tóth and Neumann 2003). Trade unionists usually consider this stipulation as a means of the state to weaken the interest representation power of trade unions.

At *Accor (Pannonia)*, the works council is rather weak and tends to follow the trade union, which is well-organized and has the power to crowd out alternative voices. In the past, a closer relationship with the management provided strong voices for the works council, headed by someone who worked for the company already before 1989. The present works council leader believes that the retirement of the first president of the council left the employees with a “fake works council.” He is not inclined to strengthen his role as being apathetic by a lack of upward mobility within the firm.

Although at *EDF (DÉMÁSZ)*, as hinted above, the works council represents a more critical voice of employees than the trade union – most probably because of its more distant relation with the management board – the cooperation between the two institutions, according to our informants from both sides, works well. Moreover, by the end of our field work, the president of the works council was

elected as a lead representative of the local-level trade union as well. Such form of accumulation of key positions was not criticized by any of the interviewees, because it was considered as an efficient mode to handle the ongoing unbundling process in the sector. Unbundling of the energy sector easily results in the weakening of labor representation because in certain newly-developed corporations employees may remain without any interest representation. To overcome this problem, in 2007 the local works councils of the divisions of *EDF (DÉMÁSZ)* organized a central works council for a group of the subsidiaries. Hence, both workers' interest representation and the negotiation with the management could remain efficient, the latter of which was welcomed also by employer representatives.

### 2.3. The strength of sector level representation

In several sectors of Hungarian economy, the sectoral trade unions which operated before transition, ceased to exist and had not been (re)organized before the EU started to put pressure on governments. In contrast, these sectoral level unions in both the hotel and electricity industry have been operating continuously since before 1989. The successors of the former sectoral level organizations were successful in concluding collective agreements, which later became extended to all employees within the related industry. To refer to the strength of these agreements regarding interest representation of employees and to the relations between sectoral and local level trade unionists, we use the concept of *sectoral effect*.

In case of *EDF (DÉMÁSZ)*, sectoral level trade unions in state socialism had a major role in organizing employee representation at local level, too. For instance, the sectoral trade unionists had had personal ties to international networks developed during state socialism, which assisted them in preparing for the challenges of developing industrial relations in a market economy. This knowledge seemed to empower the unionists for shaping employment representation after 1989 and supported the development of social dialogue with the new, private owner of *DÉMÁSZ* as well.

By the time the French company entered the Hungarian electricity industry, negotiations on a sectoral collective agreement had already been in progress. In the very same year of the acquisition of *DÉMÁSZ* by *EDF* (1995), the agreement was signed assuring minimum standards of rights for all employees within the sector. Today, the sectoral trade union takes the lion's share in organizing strikes, protests against the abolishment of tariff allowance, or the reduction of the regular annual wage increase similarly to its French counterparts. All warning strikes that took place within the sector in Hungary were initiated by the sectoral trade union.

Contrariwise, the local trade union of *Accor (Pannonia)* is not a member of the sectoral trade union. Lead trade unionists claimed they had no interest in cooperation and were not willing to pay for the membership because of the inefficiency of the sectoral organization, seen as an example of "the Tragedy of Commons," and "lagging behind the need of workers' interest representation." At the same time, the local trade union is not eligible to participate in any international forum of social dialogue outside of the sectoral trade union. *Accor (Pannonia)* trade unionists are still involved in the European Works Council meetings, which will be discussed in the next section.

It is important to note that the sectoral trade union in question voices the interests of hotel employees and also of those in catering services. The latter ones have low wages and are weakly organized, and thus subject to different forms of exploitation. Furthermore, sectoral trade unionists in the Hungarian hotel industry have major difficulties to grasp the sheer number of people they represent: high rate of seasonal workers or the high number of enterprises employing less than five people who do not appear in their statistics. Our research revealed that the sectoral trade union has a slightly different focus of interests than the *Accor (Pannonia)* employees: while at the sectoral level, the guarantee of a minimum wage for skilled and unskilled labor is the first priority, trade unionists of *Accor (Pannonia)* are more interested in keeping as many employees within the company as possible (although not very successfully). All this may explicate better why *Accor (Pannonia)* trade unionists consider the operation of the sectoral trade union inefficient in terms of the representation of *Accor (Pannonia)* employees.

## 2.4. The role of transnational relations

A general regulation that complies with the Directive 94/45/EC imposes the establishment of European Works Councils (EWC) upon MNCs operating in more than one EU country and employing at least 1,000 people. This makes it important to look at the international relations of employee representatives, which is assumed to empower labor vis-à-vis employers. We will call it the *European effect*.

Setting up EWC concerns both *EDF (DÉMÁSZ)* and *Accor (Pannonia)*. The French parent company of *EDF (DÉMÁSZ)* has had a European Works Council since 2001 that has been open to Hungarian employee representatives even for a longer period that dates back to Hungary's EU accession years. Trade unionists considered their participation in this forum as a direct link to the employee representatives of other subsidiaries, the parent company, or the Chief Executive Officer of *EDF*. These transnational employee relations are used in particular in cases of company reorganization. For instance, the transnational exchange of information seemed to be of high relevance for French trade unionists as well around 2004-2005 when they faced large-scale dismissals. By that time, trade unionists of CEE countries had already been behind the respective EWC.

The direct relationship with the *EDF* CEO is utilized by local trade unionists to resolve local conflicts. On certain occasions, when employers infringed upon workers social rights, Hungarian trade unions were able to negotiate with French headquarters. This opportunity puts certain pressure on the local management who feels more embarrassed to report conflicts to the parent company. When the Hungarian trade unionists organized a warning strike, a demonstration was held in front of the headquarters building of *EDF* in France. Labor representatives initiated negotiations with the parent company management as well as the French ambassador to Hungary in order to appeal for media attention.

For the *Accor (Pannonia)* trade unionists, membership at European Works Council has had no direct impact on their strength at local level. They do not feel to have common interests with the employee representatives of other subsidiaries. Nevertheless, the main secretary of the trade union admitted that their participation at international forums strengthens their legitimacy at national, sectoral and local level. According to the regulations, *Accor (Pannonia)* trade union would not have right to participate in the work of EWC as an independent actor because only one organization can be recognized from the country given the relatively low number of employees at the Hungarian site.<sup>6</sup> Normally, with regard to the Hungarian employee representation system, this would be the sectoral trade union. But because the *Accor (Pannonia)* trade union refused to be a member of the sectoral organization and the employers of the parent company want to negotiate with the labor representatives of their own subsidiaries, *Accor (Pannonia)* trade unionists are still invited to the EWC meetings (even without paying a membership fee which is funded by the sectoral trade union).

Notwithstanding of direct links to the parent company, after all, *Accor (Pannonia)* employee representatives prefer to resolve conflicts at local level. As one of our informants said: "if minimum standards of industrial relations are met, we feel no need to become the accomplice of the central management." Trade unionists hope that this strategy gives better chances to improve working conditions at the local level and to "keep the labor peace." The language the trade union leaders use refers to an "intimate relationship" with the management parallel to tangible transnational ties to peer labor organizations.

Strong alliances with the local management are also inspired by the understanding of the weight of local action in a MNC. Given the modest number of employees at the Hungarian subsidiary compared to the number of all *Accor (Pannonia)* employees worldwide, the representation of local workers' interests may have little relevance at a company level. Therefore, delegated trade unionists would never have a chance to influence management operations through international networks. It created an exception

6 See Act 2003/XXI on the Development of European Works Councils and the Procedure for the Information and Consultation with Workers.

when a local manager's action was seen excessive and contested (see cases of harassment) by trade unions appeal to the French headquarters requesting their disciplinary power. This case concerned only the Hungarian managers of Hungarian outlet.

## 2.5. Looking at Frenchness from the bottom-up

The fifth and most specific aspect of our analysis regarding the possibilities of trade unions to advance labor relations in MNC outlets is the *French effect*, that is, how the embeddedness of the mother firms into French culture and society is perceived by employee representatives and reflected in trade unionists' narratives.

The market behaviour of MNCs with prime concerns for efficiency and profit maximalization has had severe effects on the employees of *EDF (DÉMÁSZ)* as well as *Accor (Pannonia)*. The central management of both firms had mid-term and also short-term strategies to be strictly followed by subsidiaries' local managements, no matter if those concern business operation or labor management. One of our unionist interviewees referred to these strategic plans as ones very similar to those five-year-long plans that used to exist in state socialism and were required to be met at any price.

The presence of French "consultants" as well as managers at the local subsidiaries has not affected industrial relations in terms of job safety. At *EDF (DÉMÁSZ)* the CEO position was first replaced by a French manager only in 2005. This changed the relationship between employers and employees in a way that people, who used to have a direct and more informal relationship with the managers, have developed a more formal and, due to language constraints, less relaxed connections to the leadership. Similarly, at *Accor (Pannonia)* the first French CEO was appointed quite late, in 2002. In the period of 2002-2008, he was supposed to manage those radical changes that were meant to improve the efficiency of operation. This was interpreted by the trade union representative as "a period of integrating the operation of the subsidiary into that of the parent company," following "a period of the transition of a socialist company to a private, for-profit organization" (managed by a Hungarian CEO between 1993 and 2001, as mentioned above). Thus, by 2008 *Accor (Pannonia)* became a "modern MNC" that "has a good position in the transnational market," governed by the Parisian headquarters. At the same time, a lead trade unionist characterized this period as the beginning of "wild capitalism" which ends "the protracted period of transition," "when employees were provided with much more social benefits than capitalism can normally offer."

In case of *EDF (DÉMÁSZ)* organizing (warning) strikes became an identification of the French mode of labor resistance. Although the local lead trade unionist claimed that the initiatives came from them, the sense of legitimation seemed to be gained from French trade union experience. Labor resistance was associated with "French democracy" that should be followed because "this can prove that democracy exists not only in the form of cyclical elections but also in this form of solidarity." *EDF (DÉMÁSZ)* employee representatives were ready to learn not simply a practice but a language of French labor relations. In the narratives of *Accor (Pannonia)* unionist interviewees, *Frenchness* appeared in two distinctive ways. First, the "French social model" in general was characterized as an "old democratic system" that "recognizes the importance of labor interest representation." Strike was also considered an inherent characteristic of the "French social model." *Accor (Pannonia)* trade unionist also pointed out that French managers are more liked than Hungarian ones in the subsidiary because they are less prone to misuse their power over employees, or to engage in direct political talk, and are more "civilized" than Hungarian managers. The perception of strong spill-over effects of Frenchness is refined when labor leaders characterize the behavior of current local managers in office. More power is given to personal capacities and loyalty to the firm as explanatory forces than country origin of the manager. Further, an interesting opinion is also voiced that views the social benefits as a result of a competition between the "French social model" and "the US system" rather than a cultural package that managers transfer.

*Accor (Pannonia)* informants, when accounting for their strategically formed relationship with the management, contradict to some instances of the above imagery of *Frenchness*. Although strike is considered an inherent characteristic of the “French social model,” conflict resolution through negotiations is preferred. Trade unions should let foreign managers know what Hungarian employees are more sensitive to (for example, wearing a uniform and having a make-up by duty instead of working overtime) and try to make compromises along those lines. Further, unionists argue that “Hungarian workers” “tend to sabotage production, instead of going on strike,” therefore employee representatives should strive to resolve conflicts through negotiations. Some informants stress that local conditions are far different from either the “French model” or the “American model”: the idiosyncratically “close relationship” between workers and trade unionists lets the latter “know everything” from the former, and provides thus the most effective assistance in the life of labor. Finally, the strategic interpretation of the relationship with the managers, which is partly French and partly local, leads to a critique of the colonizing effects of the French MNC, as such. The cooperation with the local management is described as worthwhile because it can form “an alliance against French headquarters,” which eventually embodies an economic pressure against the interest of the workers, and implicitly of the local management as well.

In a comparative account, at *EDF (DÉMÁSZ)*, the notion of *Frenchness* has an unequivocally positive reference to the country origin of the parent company as well as to democratic practices to be followed, whereas at *Accor (Pannonia)* *Frenchness* is constructed in the context of an opposition between East and West. On the one hand, the Eastern and Western forms of management styles are juxtaposed and valued; on the other hand, symbolic geography describes unequal economic powers within the firm shaping labor relations as well.

## Conclusions

The political economy of labor-capital relations, examining the transformations in Central and Eastern Europe in the context of globalization and larger historical trends, tends to argue that a conspicuously weak labor emerges through the post-socialist capitalist transformations. Moreover, the chances for a capital-labor contract, in the fashion of the Western post-WW II progress, have been structurally diminished by a variety of forces. Organized labor remains fragmented as it operates largely through informal or dispersed bargaining, and is weakly supported by sectoral agreements and cross-sectoral coordination. As a consequence, industrial relations are mainly shaped by employer decisions and market forces that state policies tend to serve in the hope of offering a competitive environment (Bohle and Greskovits 2004). Moreover, the most recent crisis has just enhanced the importance of MNCs since maintaining their contribution to the economy, which makes up 60 percent of the GDP in the case of Hungary, became a vital objective of the government for economic consolidation (Neumann 2009).

Although Europeanization of labor relations is bringing some support towards better employee representation and protection, and institutionalizing collective bargaining (Koltay and Neumann 2006), FDI can be differentiated along several dimensions often giving very different potentials to enforce elements of a European social model (Marginson and Meardi 2004). Hence, the transposition of a labor protective model is very contingent. But what does our research suggest?

Although the number of studied cases is limited, it is fair to assume that already existing trade union arrangements, traditional bargaining power and skills can push managers to engage in a dialogue at the workplace. The goals and visions of trade union officials remaining in position after transition have to be examined closely, though (Ost 2009). The case of *Accor (Pannonia)* illustrates well how former trade unionists can play an “independent” mediator role between employers and employees, instead of as plain supporters of employee interests. Union leaders both take advantage of labor relation regulations guaranteed by law and the personal relations with the management tracing back to times before transition. Unionists albeit do not assist in the process, acknowledge that the major cutbacks in

labor force after post-socialist transition were necessary. This was true in the case of *EDF (DÉMÁSZ)*. However, in contrast with *Accor (Pannonia)*, the works council representatives of a younger generation gave voice to criticisms – even against trade union officials – for being “sometimes too opportunistic.”

The combination of formal and informal ways of operation in the course of bargaining seemed to be legitimate from certain aspects. Although lay-offs were radical in both sectors and at both firms, *Accor (Pannonia)* trade unionists achieved to keep labor turnover at a lower level and retain at least part of the “old brigade” within the firm, instead of recruiting younger employees. The lead trade unionist recognized that “careers do not begin here” and “*Accor (Pannonia)* is not a place for your son to be sent to,” yet emphasized their major concern is not to reach an agreement on minimum wage protecting “the underclass” but to guarantee somewhat higher standards of labor rights than the average at a sectoral level. Also the president of *EDF (DÉMÁSZ)* works council admitted that on certain occasions he had taken advantage of the lead trade unionist’s personal contacts to advance the development of industrial relation fora. However, he maintained that keeping a more fine-tuned balance between the use of informal relations and doing one’s duty as employee representative is substantial.

At a sectoral level, employees’ interest representation in the hotel and catering industry proved to be weaker than at the company level of *Accor (Pannonia)* indeed. Although similar to local trade unionists at *Accor (Pannonia)*, current sectoral-level union officials were in charge already before transition, today they lack strategically important personal contacts to employers in the industry. In the energy sector, sectoral trade unionists proved to be both active and relatively successful in interest representation. They took advantage of their personal relations developed through transnational ties, which made company level negotiations easier to develop.

According to certain views, EWCs should provide an institutional basis for the consolidation of industrial relations (Marginson and Meardi 2004). Our two cases do not necessarily support this proposition. In case of *EDF (DÉMÁSZ)*, the operation of EWC proved to be of significance for local employee representatives: trade unionists found the cooperation among EWC representatives mutual and helpful. Yet, in the case of *Accor (Pannonia)*, trade unionists felt they have only a very limited influence on the discussions of EWC. The mere interest they have in participating in the international forum is to gain legitimacy and recognition, primarily at a local level.

How the marginal role of *Accor (Pannonia)* trade union at a European level of employees’ interest representation was described resonates well with a part of the interpretation of *French effect* that identifies *Frenchness* with Western attitudes seeking control over Eastern European actors of labor and production market. However, as elaborated above, French managers were preferred to Hungarian ones when labor negotiations were concerned. The emphasis put on the difference between the efficiency of “eastern” and “western” ways of protesting against the local management would suggest that not only the country-of-origin, but also the local context seems to be of great importance. In case of *EDF (DÉMÁSZ)*, *Frenchness* was purely considered a specific awareness of the participatory rights of citizens traced back to the French historical legacy. So the *French effect* was neither related to the *European effect*, nor to the actual position of trade unions at a local level, in contrast with the former case.

In sum, our two cases provided evidence for that the country origin of MNC matters not necessarily in the form of transferring particular industrial relations, but in the empowering effect of employee representatives’ conviction in that employers’ sense of duty is saturated by the “French social model” that is democratic and respectful of industrial relations. Yet, for a more refined analysis, further research should be conducted with extensive observations among the managers as well as comparing the effects of Greenfield and Brownfield FDI.

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