TITLE: THE EMERGENCE OF NEW ENTERPRISE INSTITUTIONS IN POSTCOMMUNIST POLAND

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EXECUTIVE SUMMARY

Post-communist Poland has rapidly been developing a hierarchical system of industrial relations. Managers have greatly increased their role in setting wages and shaping firm policy. In privatized firms, employee councils have been abolished altogether. The chief reason for this is not coercion from above but acquiescence from below, as pro-market beliefs have become pervasive throughout the population. What are the implications of these developments? On the one hand, it has made the transition to a market economy relatively painless. On the other hand, the exclusion of employees from participation, even at their own volition, has led to a situation in which numerous employees feel unconnected to the firm and to the larger political sphere, an arrangement that is likely to produce economic and possibly political problems in the future.

Poland's trade union leaders, including those of Solidarity, have taken a strong pro-market attitude to the key issues of the day: they believe in the sanctity of property rights, disbelieve in the utility of strikes, welcome foreign investment, and support extensive managerial prerogatives. Governance rights, unionists believe, derive from ownership, not from employment.

Hierarchical authority is particularly severe in the private sector, where employee councils have been eliminated and unions tend not to be very active. Since Poles believe employees should have rights in firms up to the moment of privatization, employee influence continues in state-sector firms.

What determines employee involvement, we found, is not the presence or absence of institutions (ie, employee councils) designed to facilitate involvement, but whether or not employees believe they have a right to be involved. Ownership is the key factor: Polish employees believe they need to participate in all except private firms. In "commercialized" firms that are on the road to privatization but not yet there, employees seek to involve themselves in firm governance even though employee councils have been abolished. Employees believe they have rights in non-private firms, and will use any available institutions to secure those rights.

Unionists in private firms tend to allow owners to make their own decisions without employee input.

We also found significant differences between Polish and foreign-owned firms. Managers in foreign-owned firms tend to be more supportive of employee involvement than managers in Polish-owned. Managers in foreign firms are more likely than their counterparts in Polish-owned firms to believe that the company has responsibilities to employees. While managers in Polish-owned firms believe that the firm's relationship with employees consists solely in the exchange of labor for compensation, managers in foreign-owned firms have to some extent internalized the cooperative, inclusionist, post-Fordist values and practices more common in the West.
Our research casts doubt on the view that employee involvement in firm governance is at best a nuisance, at worst a financial hazard. Popular wisdom may hold that workers are unable to comprehend complex matters of management and will be uninterested in long-term investment, but our field work and survey research indicate that employee representatives on enterprise councils take their supervisory role very seriously. They are in command of information about nearly all aspects of the firm’s operation and are willing and able to learn more when they need to. Moreover, these representatives displayed a commitment to long-term issues that often clashed with their role as employee representatives. Very often they were the ones pushing for privatization and down-sizing even at the cost of job security and fringe benefits. Not surprisingly, managers in state-owned firms were very willing to cooperate with employee councils, which they viewed as a valuable and responsible supervisory body in the absence of a private owner. Our research indicates that an active and participatory employee council can be very beneficial to a firm’s welfare.

Although supported by many unionists, the move towards hierarchical enterprise institutions has frightened many Polish citizens. An increased skepticism towards private property and increased frustration with the decline of employee representation were key factors in the 1995 presidential victory of former communist Aleksander Kwasniewski. While democracy as such is probably not in danger in Poland (the ex-communist Kwasniewski is a firm supporter of basic democratic principles), democracy can be strengthened in Poland today by strengthening the institutions of employee governance whose dismantling unionists themselves were too quick to promote.
Our project was to study the evolution of postcommunist society in Poland -- not from the "high" position of government and corporate bureaucracies but from the "grassroots" position of the factory workplace. We chose the workplace as our area of focus for two reasons: 1) because firm-level efficiency ultimately determines a country’s ability to flourish economically, and 2) because the firm is a contentious site of political activity, particularly in Poland with its long Solidarity legacy. Too much emphasis, we felt, has so far been placed on developments at the top: democratization and privatization. But whether democracy and a market economy are ultimately successful depends upon how people experience the changes. And people experience the world chiefly through developments at the bottom, or at the workplace where the majority of the population still spends most of its time. Poland’s economic and political future will in large part be determined at the micro-level of the firm.

We were able to carry out a major survey covering 95 different industrial enterprises in Poland, with a diverse ownership structure. Long questionnaires were administered to four key enterprise officials (the director, an employee representative of a managerial body, and the leaders of the largest two trade unions) in each of the plants.

Our main finding is that a dramatic change in enterprise governance is occurring in postcommunist Poland. There has been a strong move toward increasingly hierarchical internal relationships. Managers that used to be constrained by ministries at the top and trade unions at the bottom are emerging with vastly increased authority. Surprisingly, one of the main reasons for this is not coercion from above but acquiescence from below. Preconceived notions about private property rights have played a key role in strengthening management claims, particularly in private firms. In these firms, trade unions have been unable to reconcile their desire to support the new prerogatives of private capital with their mandate to represent employee interests. Often, they seem more sympathetic to the former than the latter. Even in state-owned firms, however, where
employee councils still play an important role, there has been a shift toward strong managerial authority in areas such as wage determination and even employment policy. In short, a move toward a market economy with strong managerial control is taking place with the consent of the trade unions and employees.

FINDINGS

Through a combination of surveys and field research, we have learned much about the attitudes and strategies of trade unionists as they negotiate their way into a new, post-communist socioeconomic system. Poland’s trade union leaders have taken a strong pro-market attitude to the key issues of the day: they believe in the sanctity of property rights, disbelieve in the utility of strikes, welcome foreign investment, and support extensive managerial prerogatives. Overall, we conclude that Solidarity trade union leaders tend not to be strong supporters of employee co-governance, for they believe that self-interested private owners promote managerial accountability and economic success. The lack of such owners, they feel, is what led to the economic crisis of socialism. Unionists support employees having strong governance rights only in enterprises of which they are themselves part owners. Being a worker is not enough to warrant influence over firm decisions. Governance rights, unionists believe, derive from ownership, not from employment.

Solidarity feels it has a crucial role to play only in state-owned firms, precisely because of their "ownerless" status. Union activists in such firms believed that they had two fundamental responsibilities in the transition period. First, they had the obligation to protect the assets of state-owned firms from being appropriated by managers who owed their position to the nomenklatura system of patronage. Second, they were obliged to co-manage state-owned firms in an effort to enhance their economic viability in preparation for eventual privatization.

Interestingly, unionists tend to take a similarly active role in State Treasury firms (also known as “commercialized” firms).¹ Because these firms are only on the road to privatization, but not yet there, unionists believe employees should retain rights in these firms. Indeed, we found that despite the statutory dissolution of worker councils in these enterprises, employee stakeholders did retain considerable influence there. They did so by having the trade unions take the place of the worker councils. In these firms, the regularly scheduled meeting (narady)

¹ Under the terms of the 1991 Law on the Privatization of State Enterprises, commercialization is an interim step in the privatization process. Once commercialized, a firm’s assets are transferred from its ownership body (a locality or state ministry) to the State Treasury. Upon this transfer of assets, the employee-elected worker council is displaced by a six-person supervisory board, four of whom are selected by the Ministry of Property Transformation.
continued, and questions concerning the firm’s finances and privatization were just as likely to be discussed at these meetings as were concerns about pay and working conditions. Moreover, trade unionists reported that they had relatively easy access to financial information concerning the firm and that they were frequently engaged in discussions and strategy concerning the firm’s privatization. As in state-owned enterprises, the multiple stakeholders in state treasury firms exercised considerable influence on the strategic direction and future ownership status of the firm.

One of our most interesting findings was that strong employee involvement in firm governance does not depend on the existence of legal institutions giving workers such influence. For example, in state-owned firms, where workers have employee councils with vast statutory powers, workers are very active in enterprise governance. Managers meet regularly with representatives of the councils to discuss not just issues of working conditions and wage policy but also to share financial information and to plan the firm’s market strategy. Given the statutory authority of such employee councils, we might expect such an outcome. What is surprising, however, is that employees are involved in internal governance even in commercialized firms where employee councils have been abolished. In these firms, employees help shape firm policy through the trade unions -- despite the fact that trade unions have no legal authority to do so. In other words, the most important factor contributing to employee stakeholder co-management is not the existence of co-management institutions, but the non-private status of the firm. Employees believe they have rights in non-private firms, and will use any available institutions to secure those rights.

The situation is quite different in private firms. Whereas local Solidarity factory commissions assert their right to influence the strategic direction of state-owned and commercialized enterprises, they have a highly ambivalent notion about their role in privatized firms. Activists who feel a union has an obligation to oversee management in state-owned firms are frequently willing to allow private owners to make whatever decisions they want without employee input. This does not mean there are not union-management disputes in privatized firms. However, these disputes generally concern wages and individual grievances, and rarely escalate to collective action. Solidarity activists in privatized firms tend to feel that while management has the right to make basic business decisions, it also has an obligation to negotiate with the trade union about the consequences of these decisions. Specifically, unionists insist on consultation prior to layoffs, a right which is, in any case, guaranteed by law. Consultation rarely results in a reversal of management’s decision, however, and unions generally do not insist that it should.
Consequences for Firm-Level Consultation and Wage Practices

These trade union strategies have had a direct impact on many aspects of industrial relations, including issues of consultation, pay, and wage determination.

There has been a substantial decline in consultation practices in private firms. Whereas more than two-thirds of the state treasury firms surveyed reported having regularly scheduled meetings between trade union representatives and management at least once a month, less than one-third of privatized firms reported having such meetings. Moreover, in state-owned and state treasury firms, strategic issues were frequently on the agenda. In privatized firms, on the other hand, narady tended mostly to be concerned with wages and working conditions and were in essence an extension of the collective bargaining process.

Management in privatized firms has also sought to introduce greater secrecy. Economic data accessible to employee representatives in state-sector firms have become unavailable to representatives in privatized firms. Wage information, which in the old regime had been publicly displayed, has now typically been made confidential. In 1994, nearly all non-employee-owned private firms had confidential wages compared to 31.8% of state treasury firms and 9.8% of state-owned firms.

Even in firms where employees retain considerable influence, we have found evidence of growing managerial power. This is taking place in the area of wage policy, and is particularly apparent in the matter of bonuses. In the former communist system, bonuses were calculated on a collective basis. If a particular shop or work team showed good results, all the members would get a good bonus. Moreover, all employees were virtually guaranteed some sort of bonus. Today, in all except foreign-privatized firms (see below), bonuses are increasingly calculated on an individual basis, meaning that workers can no longer take them for granted. Not only does this increase the authority of foremen and managers, who become responsible for shaping each individual’s wages, but it strengthens management’s hand by promoting internal competition and reducing employee solidarity.

In interviews, managers were anxious to note that these changes reflected a new division of authority in the firm. Most managers feel that employees had too much power in the communist era, and that trade unions exercised too much authority in the first years after 1989. They see privatization as marking an end to this era: “Now that the firm is privatized, trade unions will have to learn a new role.” (Interview 1, Case 16.) Another manager noted that since privatization, “The role of the trade union has dramatically decreased. Of course, we abide by the law on trade unions, but on a number of matters there is no need for consultation or agreement. On no
economic matters is the trade union a partner." (Interview 1, Case 6.) Significantly, managers tend to express such anti-participatory views regardless of the firm's ownership structure.

Employees have noticed this increasingly hierarchical tendency, and do not always like in practice the kinds of things they supported in theory. "Once there was an employee council, trade union, information," said one worker we interviewed. "Now we find out about the firm from the newspaper." (Employee Focus Group, Case 10.) Employees are concerned with the unilateral nature of decision making and complain that suggestions and disagreements are increasingly met with threats of dismissal. A worker in an employee-owned firm commented: "At first, after privatization, they laid off workers so that people would be frightened. ... It's feudalism. There is no discussing things with supervisors. You can't say anything. If something bothers you, it whoosh out the gate. ... They don't tell us anything, and we don't have the right to say anything. ... They can do anything with us that they want, and they do it."

Our findings show that this diminution of employee voice in privatized firms should be attributed not just to managerial strategy and high unemployment rates but to Solidarity's strategy as well. Primarily concerned, after 1989, to facilitate the privatization of state-owned enterprises, union activists often had difficulty defending employee rights after privatization.

Ideas about economic behavior has also largely shaped patterns of wage determination in post-communist Poland. Yet whereas the absence or presence of private owners constituted the basic divide for determining employee governance, the key divide in the area of wage determination is between Polish and foreign-owned firms. Whereas foreign-owned privatized firms have preferred flat-rate pay systems supplemented by year-end firm-wide bonuses, Polish firms have been more inclined to replace the old bonus system with more contingent individual monthly bonuses. Since 1989, 24.6% of Polish domestic privatized firms in our sample have introduced highly contingent bonus systems, while 17.8% have maintained a pre-existing system. Among foreign-owned privatized firms, however, only one enterprise introduced a highly contingent pay system and only two others have maintained a pre-existing system that placed 25 percent or more of total compensation at risk.

In interviews, Polish managers indicated that compensation was the only means to motivate and control the workforce. Moreover, they argued that supervisor discretion in the allocation of these bonuses was essential. In this way, bonuses act as a coercive mechanism by providing first-line supervisors with a means to reward or punish employees on a near real-time basis. By introducing a system that makes a considerable percentage of compensation contingent upon the unilateral discretion of management, Polish firms have been able to substitute bureaucratic and technical supervision with a system of coercive control. This is in contrast to foreign-owned privatized firms in Poland that tend to tie employee compensation to annual or semi-annual formal
evaluation systems. Indeed, whereas over three-quarters of the foreign firms surveyed introduced a compensation strategy that tied annual wage increases to formal evaluation systems, only 10% of Polish privatized firms did so.

The different approaches are consistent with the strategies adopted by multinational firms in attempting to forge new employee relations. In a number of foreign firms we visited, considerable resources were invested in translating and diffusing corporate mission statements emphasizing the value they placed on a partnership with employees. These views were frequently embraced by Polish managers in such firms. According to one senior manager in charge of quality control, "I used to think that you needed to treat workers like this [he put his right thumb in his left palm and twisted it back and forth]. Now, I realize that you have to talk to people, explain to them, teach them, and persuade them." For this particular manager, the defining moment came during a study tour of Japan and the United States. Significantly, however, "partnership" with the workforce and concern for its well being did not translate into partnership with the union. Rather, most foreign-owned enterprises sought to formalize labor/management relations while circumscribing discussions with trade unions to a narrow range of issues related to wages and working conditions.

The extent to which these values have been internalized by Polish managers is reflected in our survey of managers. For instance, when asked to estimate what percentage of blue collar employees in their firm work only for pay, the mean response for Polish managers in state-owned and Polish-owned privatized enterprises was 62.4 percent. The comparable response for Polish respondents in foreign-owned enterprises was 46.4 percent (t=2.50 P < .05). These responses parallel those concerning a firm's obligations to employees. Asked to express levels of agreement on a five-point Likert scale to the statement: "It is an appropriate role for the firm to care for the personal well-being of employees." Polish managers in Polish state-owned and privatized firms had a mean response of 2.83 compared to 3.64 for Polish managers in foreign-owned firms (t=2.76, P < .01). In other words, managers in Polish-controlled firms believe that the firm's relationship with employees consists solely in the exchange of labor for compensation.

Management representatives in foreign-owned firms, in contrast, have to varying extents internalized the post-Fordist values sometimes promoted by the corporate parent.

These views and the emergent patterns of wage determination suggest there are important differences between domestic and foreign firms that are not directly related to their common economic and institutional environment. In the transition period, firms in Poland faced an important decision about how to restructure obsolete compensation systems. Unlike developments in management/labor consultation, the paths they have chosen do not systematically vary as a function of the presence or absence of private owners. Rather, the divide is based on Polish
versus foreign ownership. Managers respond to similar challenges in different ways based on differing assumptions about employee motivation.

**Theoretical Issues**

We noted in our original proposal that we hoped to explore several important theoretical questions. Insofar as these concern the ways in which democratic institutions evolve, they should be of interest not just to scholars but to policy-makers too.

The problem we face is how to explain the apparent paradox of Solidarity’s behavior. How could a political revolution led by a labor movement founded on egalitarian ideals result in statutory changes and shopfloor strategies that have diminished employee stakeholder rights and increased managerial prerogatives?

Propositions generated in the rational choice and efficiency frameworks poorly anticipate national and firm-level outcomes in post-communist Poland. The "rational choice" perspective assumes that people take decisions according to a calculation of what is in their best interests. It holds that political actors maximize interests within constraints established by the institutional environment. It assumes that people are guided by self-interest, which itself assumes that people well know what policies are in their self-interest. From this perspective, we would expect Solidarity to have devised a political and economic strategy in the transition period consistent with its earlier program and with its institutional position as the representative of wage employees. We would expect post-1989 Solidarity to try to introduce the numerous working class aspirations that were unrealizable in the legal and political environment of the communist era, such as social justice based on human dignity of work, egalitarianism, and worker participation. As we have shown, however, instead we have seen a retreat from these goals. In other words, Polish trade unionists frequently take positions that seem to clash with their interests. Employee council members push for private ownership arrangements in which employee councils would not exist; union leaders push for policies certain to decrease the influence of unions. Obviously, something other than "rational interest" is at work here.

A key problem with the rational choice explanation is that it assumes people know exactly what economic policies serve their self-interests. But when people are only preparing to enter a market economy, and do not yet have experience of it, they do not know what is in their interest and what is not. That is, neither employees nor managers knew whether they would gain or lose in the transition to a market economy. Market forces, therefore, could not have led to the creation of particular governance institutions in postcommunist Poland since such forces were not yet operating when these new systems were erected.
The traditional institutional approach, meanwhile, holds that enterprise governance arrangements evolve in accordance with the institutions that are present. According to this approach, we would expect that Solidarity’s egalitarian patterns from 1980-81 would continue, whereas our research shows egalitarian ideas declining decisively after 1989. Also, this approach would lead us to expect significant employee involvement (a democratic governance arrangement) only in firms where employee councils are legally granted considerable authority. As noted above, however, we found that employees are actively involved in governance issues even when formal employee councils do not exist. The key variable is not institutional legacy but ownership structure. Our findings, therefore, suggest that the traditional institutional approach is not very helpful for understanding postcommunist Poland.

The numerous anomalies we discovered in our research tell us that we must seriously examine the role of non-economic and non-institutional variables in the shaping of economic policy and firm-level outcomes. This is best accomplished in an ideational framework that considers the autonomous role of socially constructed ideas in shaping national and firm-level institutional patterns. Without denying the material basis of these transformative notions, the ideational framework envisions the potential of particular concepts to structure policy options and firm-level strategies autonomously from the institutional environment in which they operate. This is not to argue that history, economics, and institutions are unrelated to ideas, but rather to suggest that once dominate notions emerge, strategic actors may act upon them in ways not easily predicted by the principal institutional interests they represent. In contrast to the rational choice approach, this approach tells us to look at how interests are constructed, rather than to assume that they exist as a constant. In contrast to the traditional institutionalist approach, our ideational, neoinstitutionalist approach suggests that the past influences the present not just by providing institutions within which present actors must work, but by shaping expectations too.

Our research in Poland offered abundant evidence showing that new institutions (in this case, new enterprise governance arrangements) arise as a result of the ideas that economic actors bring with them. For example, one of our most significant findings is that Solidarity has not been the militant anti-market organization many expected it to be, precisely because Solidarity activists entered the postcommunist era as strong believers in market logic. Members of enterprise employee councils, who play a dominant role in state-owned firms, are ready to give up their powers in private firms because they believe that owners will take good care of their property, and that employees must supervise only that property which lacks real owners.

The importance of ideas is also made clear through a comparative analysis of developments in Hungary. By law, employee councils exist there in all firms, state-owned and private. But despite the formal institution, employee involvement remains insignificant. For historical reasons
having to do with greater market opportunities for Hungarian workers, employees have never had much interest in formal involvement in firm governance, and this has kept participation low with or without the presence of representative enterprise institutions. Ideas, in other words, have been more important than institutions.

This does not mean that institutional legacies are unimportant. For example, management in both state-owned and commercialized firms believe that employees ought to be more involved than in private firms since both types of firms are ultimately dependent on state resources, and internal unity gives them greater clout. But in understanding the evolution of forms of enterprise governance, ideas seem to play the most critical role.

CONCLUSIONS

Our project has taught us many important matters about the relationship of workplace governance to democracy and efficiency. For example, many people still think of employee involvement in firm governance as at best a nuisance, and at worst a financial hazard. Popular wisdom holds that workers are unable to comprehend complex matters of management, and will be uninterested in long-term investment. Our research disproves this assumption. Both our fieldwork and survey research indicate that employee representatives on enterprise councils take their supervisory role very seriously. They are frequently in command of information about nearly all aspects of the firm’s operation, and when they lack basic data that they need, they are able and willing to obtain it. As to strategic thinking, employee representatives displayed a commitment to long-term issues that frequently clashed with their role as employee representatives, since very often they were the ones pushing for privatization and down-sizing even at the cost of job security and fringe benefits for employees. We were therefore not surprised to learn that managers in state-owned firms showed considerable willingness to cooperate with employee councils, which they viewed as a valuable and responsible supervisory body in the absence of a private owner. On the basis of our research, we would conclude that an active and participatory employee council can be very beneficial to a firm’s welfare.

All in all, our research has shown that Poland is now developing a hierarchical model of enterprise governance made possible by the hegemony of pro-market ideas throughout the population, across social classes. This has had a dual effect: on the one hand, it has made a transition to a market economy less conflictual than it might otherwise have been. On the other hand, the exclusion of employees from participation, even at their own volition, has led to a situation in which numerous employees feel unconnected to the firm and to the larger political
sphere. an arrangement that is likely to produce economic and possibly political problems in the future.

We do not of course know exactly where this will lead. But since this evolution has not been based on rational calculation of self-interest, we do not believe it is a very stable arrangement. Ideas change when they confront reality, and Polish public opinion is far more skeptical of private property in 1996 than in 1990. Although supported by many unionists, the move towards hierarchical enterprise institutions has clearly frightened many workers and citizens. Indeed, this increased skepticism of private property, and an increased frustration with the decline of employee representation in the firm, were key factors in the 1995 presidential victory of former communist Aleksander Kwasniewski. While democracy as such is probably not in danger in Poland (the ex-communist Kwasniewski expresses clear support for basic democratic principles), democracy can be strengthened in Poland today by strengthening the institutions of employee governance whose dismantling unionists themselves were too quick to promote.