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INTERDEPARTMENTAL PROJECT
ON STRUCTURAL ADJUSTMENT

Occasional Paper 21

L. Neumann

Public sector adjustment through privatization: The case of Hungarian telecommunications

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Interdepartmental Project on Structural Adjustment

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— the role and function of compensatory programmes and social safety nets during adjustment;
— public sector adjustment, including issues pertaining to privatization;
— the role and function of the social partners in the adjustment process.

Further information can be obtained from the Project Manager (Rolph van der Hoeven) or the Project Officer (Andrés Marinakis).

Public sector adjustment through privatization: The case of Hungarian telecommunications

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Introduction

So far privatization in Hungary has affected mainly the productive sectors of the economy, especially some sectors of manufacturing and food processing. Naturally, most of the research that has been carried out has been in this area. This study tries to shift the focus towards public services and infrastructure, where the inherited huge state owned structures are almost intact, but where "islands" of thriving private businesses, sometimes part of the illegal or "second" economy (in which state employees carry on some business activity independent of state control or have a second job), have been developing for several years.

The main issues investigated in this paper are the specific features of privatization policy in the field of infrastructure, workplace industrial relations in the process of changing ownership, and the consequences of the change in terms of the reshaping of working conditions and industrial relations in private (or partly privatized) companies. Experience in the latter area is limited, however, since privatization has not been completed in many cases or the change of ownership took place very recently. In order to judge the actual possibilities for employees' interests being represented, not only will the claims of the trade unions be looked at, but also the behaviour of those who are selling the enterprises (state administration, enterprise management, etc.). A crucial question is whether labour is completely excluded from the decision-making in relation to privatization, or whether its role is confined to being kept informed and voicing opinions according to the valid legal regulations, or whether the unions are really able to influence the terms of privatization. Employees and/or managers can acquire part of the shares, so theoretically they may be able to exercise an actual influence on the privatized companies' decision-making as partial owners.

The paper thus aims to evaluate the impact of privatization on employment, industrial relations and wages. In this context, it first analyses the effect of privatization on the level and the structure of employment, including changes in job security, employment practices and methods of reducing employment. It then describes the evolving patterns of industrial relations in privatized firms, including union density and recognition and enterprise-level collective bargaining. Finally, it examines changes in wage differentials, remuneration, and the link between wages and productivity. Special attention is paid to the emerging labour practices of multinational corporations and the ongoing transformation of those elements of the former "second" economy that used to play an important role within state enterprises.[1] Unfortunately, we have to exclude the rapid growth of genuine private businesses from the current investigation, not will we be looking at government efforts to promote private small firms.

The empirical phase of this research was focused exclusively on telecommunications. The reasons for singling out this field were practical: telecommunications is the sector in which privatization has proceeded furthest so far; in addition, its strong ties with the privatized

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[1] Of all the different forms of small private business introduced in Hungary since 1982, the Enterprise Work Partnership (VGMK, according to its Hungarian abbreviation) was the most widespread. In 1986, more than a quarter of a million employees of state enterprises worked overtime in these intra-enterprise "businesses", in most cases for their own organizations, to earn considerable additional income. Because of the widespread labour shortages at that time, it was in the interests of enterprises to seek additional labour sources and to evade the state-imposed restrictions on their own employees' wage increases.

manufacturing base and with development projects involving private finance foreshadow the wide variety of options to be used in other fields of public infrastructure. The applied research methods relied excessively on a series of case-studies, complemented by secondary analysis of media accounts and official state administration and company documents. The coverage of the case-studies cannot be considered representative; the aim is simply to illustrate organizational forms typical of the telecommunications sector. Naturally, the most substantial report deals with the huge Hungarian Telecommunications Company (HTC) itself. Two other companies were selected from among the small and medium-sized companies in the orbit of HTC: one is a typical result of decentralization of a former HTC department (EMTEL); the other is a genuine private firm that has recently entered the telecommunications industry (Microsystem). Finally, two equipment manufacturers were selected, each representing a different stage of privatization: one company that has been "commercialized" but not yet sold (MW) and a former state enterprise that has been entirely bought out by a giant multinational enterprise.

1. The main features of privatization in Hungary

Privatization-oriented reorganizations of state-owned enterprises date back from before the political changes of 1989-90. The 1988 Act on Economic Association made it possible for state-owned enterprises to found limited liability and joint stock companies and to contribute part of their assets to these newly established business organizations pending the decision of enterprise councils (the self-governing bodies of state enterprises consisting of managers and employee representatives, formed in the mid-1980s to curb the scope of direct ministerial interventions in enterprises). Although this so-called "spontaneous privatization" process was not proper privatization in the sense of a change of ownership, organizational changes and decentralization did take place. The most significant lasting outcome of this process was the creation of many joint ventures.[2] Almost every case of joint venture creation means an inflow of additional funds over and above the original equity. The state has not in fact received any revenue from this process. The 1989 Transformation Act provided for the transformation ("commercialization") of entire state enterprises into limited liability or joint stock companies. In this case the shares are made over to the state. Ownership rights are exercised by the State Property Agency (SPA), an organization set up specifically for this purpose.

Enterprise managements (or even the "nomenclature" once assigned on political grounds) were thus the initiators and the beneficiaries of this so-called "spontaneous privatization" process, which put them beyond the effective control of either the state or the general public. The ostensible "sale price" acquisitions of companies, "salvaging" managerial seats, were the targets of political attacks, especially before the general election in 1990.

The present government, in power since May 1990, has extended the SPA's authority over state property and expanded the scope of state intervention. The legal status of the SPA was revised (it now reports to the government and not to Parliament) and it was assigned the task of safeguarding state assets through central control and direct management of the privatization process. The responsibility of the SPA has been extended to include terminating enterprise councils, which means that it can act directly as the seller of a firm. Although the SPA is part of the state administration, its decisions and resolutions taken as "owner" cannot be appealed against.

A study of the underlying assumptions and aims of the government's privatization policy was published in autumn 1990.[3] The draft report suggests that the government wants privatization to take place fairly rapidly. It plans to transfer 50 per cent of state property to private owners or various institutions (churches, social security boards, local governments, foundations, etc.) over a period of four years. It defines the basic goal of privatization as the sale of assets at competitive prices — and not their return to former owners or their free

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[2] Statistical figures do not properly demonstrate changes in ownership structure. Firm registration data collected according to different legal forms of business organization show a mushrooming of limited liability companies. but these can equally be "commercialized" former state enterprises, pure private businesses or any combination of different owners, including foreigners (see table 1 and 2). Direct foreign investment rose to US$5.3 billion at the end of May 1993, according to the latest government announcement.

[3] *Property and privatization* (Government of the Republic of Hungary, August 1990).

distribution among citizens. (The only exception is arable land, which former owners may reclaim. The former owners of other property can expect only symbolic compensation.) The proceeds of privatization are intended to pay off state debts. Reiterating a promise made by the biggest government party in its electoral campaign, it is suggested that the employees of state-owned enterprises may acquire shares in their enterprises on favourable terms. Management initiatives in state-owned enterprises and offers from international investors may also trigger privatization.

The privatization process seemed to accelerate in 1990. First, the SPA itself initiated the privatization of 20 large enterprises. The sale of several thousand small shops and restaurants was also started.[4] Privatization initiated by enterprises themselves also continued at a higher rate, although most of these were simple transformations into joint stock companies and the shares have yet to be sold.[5]

Procrastination has proved to be a typical feature of the direct sale of state-owned companies by the SPA (to date the state still owns half of the 20 companies covered by the First Privatization Project of 1990). During the lengthy administrative process companies are typically "wrecked", assets are devoured, and debts surge. Another typical feature is the priority given to maximizing state revenues and the relative neglect of other issues such as employment prospects, anti-monopoly regulations and additional investment. Negotiations between company management and the SPA over the terms of sale often end up in compromise. The task of representing "company interests" is normally referred to the top management. The company's bargaining position depends on the knowledge and expertise of its professionals and managers, as the central bureaucracy cannot complete the process of sale without their active assistance in the technical preparations. Several huge enterprises, including some near monopolies, are currently being privatized in accordance with a strategy of transformation virtually developed by the management alone, with the rather formal assistance of the SPA.

By the end of 1990 the approach to the "spontaneous" process was beginning to change. Realizing its own limits, the SPA was assigning an increasing role to enterprise management initiatives in the search for potential investors. At the same time, the government's privatization practice emphasized the importance of personnel matters in an effort to establish loyal cadres of the governing parties in key positions, especially the top managerial positions in big companies.

In 1991 the government attempted to accelerate the process of privatization through the "self-privatization" programme, under which most of the administrative functions of the SPA were transferred to consulting firms. The managers of small and middle-sized state

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[4] In 1991 privatization of 3,133 outlets worth 5 billion forint was completed. The following year 4,504 units were sold within the framework of the "pre-privatization" programme, and the state revenue was doubled (*PRIVINFO*, 1993, No. 14).

[5] At the beginning of 1991 almost 2,000 state enterprises belonged to the SPA, with assets officially worth 1,900 billion forint. The available data on the activity of the SPA (see tables 3 and 4) should be compared with this initial situation. However, government officers regard state revenue as the main "success indicator" of privatization (it was 31.4 billion forint in 1991 and 72.1 billion forint in 1992). No data are available on the progress of privatization in different sectors. Some subsectors of food processing (tobacco, sweet factories, sugar refineries, beer breweries, alcohol distillers), road construction, printing industry, construction materials, insurance and commerce seem to be the most privatized sectors (*PRIVINFO*, 1993, No. 14).

enterprises were advised by the government to select one of the listed firms operating as consultants.[6]

In the majority of cases employees have bought shares in privatized companies, at discount prices, with the permission of the SPA. However, until Parliament passed the Employee Share Ownership Programme (ESOP) law in June 1992, employees' shares remained too small to influence companies' strategic decisions. The new legislation sets out in detail the preconditions for launching ESOP projects (40 per cent of the employees' vote, the consent of the owners, a feasibility study accepted by a commercial bank, etc.), the terms of credit available to employees, and the tax exemption to be enjoyed by the company subsidizing the deal as well as by employees investing their money in shares. It was assumed that employee ownership, perhaps along with other new methods of employee participation, would provide new scope for cooperation and eventually ensure higher profitability for the company. In fact, the completed deals have not so far justified these expectations. In the vast majority of cases management dominates the ESOP organization (Trust) by holding a decisive share in the property. Rank and file employees as partial owners have not been able to prevent the implementation of tougher labour policies. Given the lack of attractive schemes for management buy-outs, it is understandable that managers prefer ESOP schemes and the favourable tax and credit conditions they offer.

By autumn 1992, the government itself admitted that the original aims of privatization could not be met using current privatization methods. So far about 60 per cent of state enterprises' have been "commercialized" (that is, legally transformed into limited liability companies or joint stock companies). Actual privatization, namely the sale of a firm's assets, has taken place in only 15-20 per cent of state enterprises, according to recent estimates. As far as buyers are concerned, 80 per cent of the state's revenue from privatization stemmed from foreign investors in 1992. In order to speed up the process and to meet the political preference for the creation of a new "class of domestic owners", the government decided to introduce new privatization instruments (more preferential credit lines, the issue of cheap bonds at the stock exchange, the launch of a "voucher privatization" project following the Czech model, etc.). Apart from improving citizens' and employees' purchasing power, a more deliberate policy of decentralization would attempt to make the market supply more attractive by offering smaller business units separated from large enterprises.

As in other East European countries, privatization inevitably takes place alongside industrial restructuring because of the backwardness in products and technology and the loss of previous markets. The government has gradually had to recognize that the crisis in the economy would be deeper and more lasting than policy-makers had expected. Threatened industries (mining, metallurgy, heavy engineering, some branches of the food industry, chemicals, etc.) would collapse and unemployment would rise steeply unless the government gave up its entirely market-led privatization principle, which left no room for the assertion of any industrial policy. There is thus a growing awareness on the part of the government of the need to reassess the objectives of privatization (for example, to identify those enterprises to be excluded from privatization, and to establish industrial policy guidelines).

In mid-1992, new privatization legislation accordingly identified enterprises that were to remain partly or wholly state property in the long term. At the same time the Ministry of

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[6] This programme includes 80 consulting firms and 700 state-owned companies, of which 30 per cent had been privatized by the end of 1992. The state revenue amounted 3 billion forint (*PRIVINFO*, 1993, No. 14).

Industry and Trade highlighted 13 manufacturing enterprises that were to be safeguarded, mainly large "flagships" of the state sector.

Emerging industrial policy objectives also meant curtailing the power of the SPA. A new state holding, the State Asset Trust (SAT), was created to exercise ownership rights in the case of enterprises that were to remain the property of the state in the long term, and ministries were assigned an increased role in the privatization process. All in all, a new phase of restoring the role of the state has begun. The appointment of loyal cadres, and the question of who are the real "winners" of the economic transition, have become major political issues. Restoring the state's central role in controlling the economy is increasingly seen as a key policy objective.

2. Special features of public infrastructure privatization

It is generally agreed that services and infrastructure were systematically neglected in the former state socialist countries. Historically, development decisions in the centrally planned economies favoured investment in the primary and secondary sectors; the growing backwardness of services and infrastructure can be clearly demonstrated by comparative statistical data.[7] Apart from physical output (length of highways, telephone penetration rate, etc.), basic macroeconomic data (on the share of services and infrastructure in assets, investment and employment) also reflect this lagging behind. Despite the recent impressive growth in the share of services in employment in East European countries, they still lag behind Western countries by 20-30 percentage points. Moreover, a large part of the increase in employment in service industries is a result of the need to counterbalance the lack of capital stock and backward technology.[8]

In Hungary telecommunications is probably the only infrastructure sector where, abandoning the tradition of preceding decades, development has been contemplated since the mid-1980s. In recent years, modernization of the telephone system has become a political issue. The promise to improve the low penetration rate and to reduce the time new applicants for telephones have to wait was seen as a matter of winning popular support both by the last communist administration and by the newly elected government. Decisions were also influenced by the obvious fact that infrastructure investment, particularly in telecommunications, is an essential part of creating a business environment, and a precondition for a thriving economy.

The 1989 ten-year development programme envisaged a 10.8 per cent annual increase in telephone lines; this would have meant a 37.6 per cent penetration rate by the year 2000. Investment requirements for the first three years would have amounted to 160 billion forint (US$2 billion, based on 1990 prices and exchange rate). The lack of available capital is the key obstacle to development because the profit generated from operating the current telephone network is not sufficient to finance a modernization programme. It is not a new practice in Hungary to seek private funds for infrastructure development. In the 1980s the holders of debentures issued by the Hungarian Post were entitled to preferential treatment ahead of other people waiting for telephones. Recently, development/investment companies have been set up to raise funds from applicants for telephones to help finance local network development. A more substantial amount has come from a World Bank loan (US$150 million in 1990) and from the EBRD (80 million ECU in 1991 and DM185 million in 1992) for the specific purpose of funding the technological requirements of telephone development. However, privatization still seemed the most promising approach to fund raising.[9]

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[7] For example, the average telephone penetration rate of the 24 OECD countries is 4.1 times higher than that in Hungary. Even among East European countries, Hungary ranks low in relation to telephone density (see tables 5 and 6).

[8] See for detailed discussion and data: Iván Major: "Private and public infrastructure in Eastern Europe", in *Oxford Review of Economic Policy*, Vol. 7, No. 4.

[9] According to the 1990 forecast, of the 160 billion forint development projects of 1991-93, HTC would have financed 40 per cent from the company's profits, 17 per cent from depreciation, 24 per cent from foreign loans, 19 per cent from HTC shares to be sold on the stock exchange, and the rest (31 billion forint) from customers or local government resources (Major, op. cit.).

Privatization of the telecommunications sector covers several more or less segmented areas such as telephone service provider units, base telephone network investment and development, local network building, and manufacture and installation of switches and terminal equipment. The separation of these functions also means decentralization of the telecommunications sector. Moreover, owing to the specific problems of the infrastructure sector, privatization has also required some general government decisions and revisions of law. Parallel to privatization and deregulation, the legislature has the new task of creating efficient regulatory bodies to replace existing government bureaucracy. (Theoretically, this implies a clear distinction between different functions of the state, as the owner of public property and as the regulator of the economy.)

First of all, in early 1990, the Hungarian Post was restructured to form three organizations, dividing the functions of postal services, broadcasting and telephone services. In mid-1992 the Hungarian Telecommunications Enterprise (HTE) was transformed into a state-owned joint stock company (Hungarian Telecommunications Company — HTC) as a preparatory step to privatization. Discussions at this stage focused on the problem of how to identify areas to be privatized from the operations of this state-owned service company and at the same time to retain full state ownership of the base network, which forms a natural monopoly. Reform economists, however, put forward the view that even a private monopoly should be more capable of bringing about change than a state-owned monopoly. It was finally agreed that the privatization of the HTC as a provider of services is inevitable. However, the really radical idea concerned the privatization of the telecommunication market itself. According to this approach market shares are sold under the recently passed Concession Act, which means that the state deliberately endorses private firms' monopoly or oligopoly position on the market in return for a concession fee settled in a bidding process.

Naturally the objectives of privatization change somewhat according to the influence of different pressure groups on the actual decision-makers. About 1990, the key objective was considered to be the attraction of development finance. At the same time the HTC management has always been interested in preserving its monopoly position.

Some of these questions are resolved by the Telecommunications Act, passed in 1992 (the Act will come into force at a later — not yet specified — date). The first version of the Bill was tailored to the HTC monopoly, allowing competition only in the area of so-called value added services — which are, by the way, completely dependent on the HTC-controlled base network. This version was not approved by the opposition parties or by the governing parties' advisers. According to them, the HTC should be deprived of its exclusive right to use the base network without a concession, and competition should be more or less liberalized. Despite the consensus among the parties in Parliament, the final version of the Act reflects the government's original proposal in that it partly preserves the privileged position of the HTC. The most important objective of the privatization of the HTC became to raise revenue for the government.[10] There are few other saleable monopolies of this size

[10] This objective was clearly evidenced during the scandalous tender process for the GSM (Global System for Mobile Telecommunications) in summer 1993. After inviting bids, the Ministry of Transport, Telecommunications and Water Management changed the conditions of the tender and abused its own rules in order to increase the minimum concession fee to be paid to the government from US$12 million to about US$45 million. The winners, WESTEL and Pannon-GSM (including several Scandinavian telecommunication companies), are entitled to make a contract with the government to develop and operate a new generation of cellular phones. (The loser, Deutsche Telecom, is one of the candidates for acquiring a 30 per cent stake in the HTC, so it reconsidered its initial plans in protest against the government's decision.) For details of the story see *HVG*, 7 August 1993; *Budapest Sun*, 2-8 September 1993.

and nature. Another important consideration was the political preference of Hungarian small shareholders; thus 10 per cent of the shares will probably be sold for compensation notes issued under the Restitution Act. It is very likely that another portion of the shares will be offered to the general public. (It is claimed that this will assure popular support for the government; with careful timing it may influence the next general election.) According to the decision of Parliament, 51 per cent of HTC shares will be retained by the state. Allegedly, potential international buyers are only willing to pay for a minority but still controlling share (30-35 per cent) if the monopoly of the HTC continues.

A number of different pressure groups are at work in this field. The HTC experts are more competent than the officers of the Ministry of Transport, Telecommunications and Water Management or the SAT; consequently the company itself is unusually well placed to control its destiny. The lobbies acting in Parliament, with their apparent preference for greater liberalization, have clearly yielded to local government interests. The government itself is interested in raising money — although the final decision to be made by the SAT will have to be a compromise between the demands of raising revenue and involving development finance. (According to the latest plans, bids will be invited in the autumn of 1993.) A number of legal regulations and governmental decisions are still urgently needed if privatization is to go ahead. Otherwise the risk taken by investors becomes so untenably high that it may jeopardize the large amount of revenue expected by the government. Further directives are needed to implement the Telecommunication Acts and the Concession Act. The so-called Telecommunications Policy Guidelines have still to be approved. These govern the tariff system (for example, the different call rates and interconnection fees) and the sharing of revenue between different service providers using each other's networks.

Involving foreign finance in the manufacture of telecommunications equipment seemed an easier task. The first project was initiated as early as the beginning of the 1980s, and involved buying foreign licences for the production of electronic exchanges in Hungary. However, this was thwarted by the restriction of the COCOM embargo (by which the United States initiated a ban on shipments of advanced technology to East European countries), following the 1980 invasion of Afghanistan. The so-called "system selection tender" for the supply of exchanges for the national base network was eventually issued by the new government at the end of 1990. It was specified as a condition of tender that a joint venture should be formed between a foreign partner contributing the know-how and a Hungarian manufacturer. The tender was won jointly by Siemens-Telefongyár (Telephone Works) and Ericsson-Mûszertechnika (Instrument Engineering). Until 1995, however, they must bid against each other every year for the quota of shipments (35 per cent to 65 per cent in a given year). It is a widely held view that this decision on the part of the government was driven by political rather than technical or business considerations. As a consequence of this decision one of the losers of the tender, the Budapest Telecommunications Equipment Works (BHG), more or less collapsed. Whereas it used to employ 10,000 people manufacturing telephone exchanges, it now has only 3,000 employees and manufactures other items apart from exchanges. The same happened true to Videoton (bidding with SEL-Alcatel of France), the other big loser, which was forced to lay off most of its staff. The Hungarian telecommunications manufacturing sector, which employed about 60,000 people at the beginning of 1990, has been destroyed.[11] The list of state-owned companies to be

[11] The contraction of the telecommunications equipment manufacturing and repair subsectors is clearly shown by the data on output and employment (see table 7).

safeguarded maintained by the Ministry of Trade and Industry includes only the BHG. The other companies have been written off.

3. Privatization and its impact on labour relations (Case-studies)

3.1 Hungarian Telecommunications Company (HTC)

The Hungarian Telecommunications Company (HTC), with its staff of about 22,000, was separated from the Hungarian Post on 1 January 1990 to become one of the biggest enterprises in Hungary. The process of separation did not itself entail any employment problems as the operations had already been separate at the level of facilities and post offices. Considering its existing telecommunications monopoly and the government's (regulatory) pricing policy, it is not surprising that the HTC is a sound, profitable business, despite some daily cash-flow problems. (Exact data were not made available.)

Since then employment in the HTC has diminished slightly, mainly owing to decentralization in the form of creating new spin-off companies. The first limited liability companies thus created mainly involved departments engaged in other than basic operations. Later companies were formed with the purpose of seeking trade investors for specialized services. (The best example of this process is the cellular radio telephone company WESTEL, a US-Hungarian joint venture set up with US-WEST.) The first spin-off companies were created through simply separating off former departments, inherited from the HTC all the obstacles to thriving business such as excess staff and an outdated organization structure. It is by now accepted among HTC management that a profound transformation of the old established organizational structure should have been more strongly encouraged. The largest of the HTC spin-off companies include EMTEL Ltd. (a network-building organization, with almost 2,000 staff initially), TÁVISZ Ltd. (repair and maintenance operations with 300-400 employees) and rural network-building organizations. The HTC has in fact remained the exclusive owner — as well as the key customer — of all these organizations. EMTEL is the only exception, as it has small shareholders other than the HTC. (For a list of HTC-founded companies see table 8.)

The HTC's double role as owned and customer has led to quite a schizophrenic situation. At the time of transformation, the parent company promised a certain level of orders, but this did not really materialize. The HTC does not interfere directly with employment matters, but it does have an indirect influence as owner in that it has to approve the annual business plans. Staff reductions are included, for example, in the requirements for profit generation or in efficiency plans. The apparent autonomy of these organizations is illusory.

Compared to other large companies, wage levels in the HTC are relatively high. Direct wage costs are in the range of 15 per cent of total costs; the rate is growing steadily, but is still low compared to the figure of 40 per cent which is usual in telecommunications sectors in the West. The general view of experts is that the overall efficiency of the HTC is very low by international standards and that its present staffing level of 22,000 will most probably have to be reduced after privatization. The HTC argues that this high level of staffing is required because of the company's technical backwardness. This may be true in respect of maintenance but is untenable in respect of operations, especially as the manual exchanges are operated by post office staff and not by the HTC.

The company's overall labour productivity has in fact improved, but this is hardly attributable to any success of the "staff efficiency programme" implemented in the HTC. Even absolutely minimal staff reductions can record spectacular achievements when the size of the network is growing by 13-15 per cent a year. According to estimates based on this trend, by 1996 HTC staffing levels should correspond to 60-70 per cent of accepted Western efficiency standards. (The current staff per thousand lines value, the main indicator of productivity, is 19.16; the forecast for the year 2000 is 8.82.) This growth in efficiency must naturally be supported by the replacement of old equipment by new generations of switchboards and networks that require much less maintenance per unit. The new control and information systems can also be managed by a reduced number of administrative staff.

A national company obviously cannot have a homogeneous labour market. Regional variations in wages have historically followed local wage levels. Wages are typically higher in Budapest. Moreover, qualified labour is most easily available near training centres, whereas it is difficult to hire qualified staff in remote areas because of the lack of housing mobility.

The decentralization of the HTC and its progress towards privatization is being accompanied by the emergence of competitors in the labour market. So far this has only occurred in the areas of network building and extension switchboards assembly. Really fierce labour market competition will emerge only after the entry into the arena of non-HTC service providers. These competitors will try to attract qualified HTC staff, as will the broader sector of electronics and information technology, which is likely to represent powerful competition after economic recovery. However, the HTC's best qualified staff are already palpably jeopardized by wage competition. In an effort to protect its labour market, the HTC launched a "key men project" about two years ago. Around 1,000 rank and file employees were identified as "driving people", and given wage increases of as much as 70-100 per cent.

Formerly integrated in the old HTC organization, training, holidays and welfare facilities have become competitive services available to spin-off companies at their own discretion against fees. But the HTC has preserved a closer relationship with its affiliates in respect of vocational training. The HTC continues to maintain training centres and offers their services not only to daughter companies but also to its subcontractors and even to its emerging competitors (with different fees for each category). Most investment or development projects (such as the World Bank projects) include a human resources development component. Both management training and further training for skilled workers have also improved. Vocational training is rather asset-intensive in this sector. For example, dedicated training bases have been established for familiarization with the new Ericsson and Siemens systems at a capital expenditure of US$1 million each. The HTC also contributes to the costs of relevant professional education in public secondary and high schools. The share of training costs in HTC total costs is growing much faster than that of wage costs. A traditional scholarship system still exists but its importance has lessened. As a result of changes in the labour market, the HTC no longer has difficulties in recruiting secondary school leavers, so it has largely ceased to grant scholarships at secondary level.

The 1990 separation of the HTC from the postal services also entailed separation from the old Postal Workers Trade Union. Moreover, the trade union structure has been further fragmented along with the decentralization of the HTC. Independent trade unions (Workers' Council and LIGA unions emerged in Hungary during the political changes of 1988-90) have

appeared at a few rural HTC organizations, although their membership is limited. The scope of their activity only covers the relevant organization; they have no say in company-wide issues, such as the collective agreement. Union density in the HTC is decreasing: it is currently estimated to be in the range of 50-60 per cent.

Trade unions have little influence on major government decisions concerning organizational changes, privatization, or tenders. When the HTC was transformed into a joint stock company, the trade union tried to contact the SPA in order to conclude an "agreement on cooperation". This request was rejected on the grounds that this phase only included exercises of "spontaneous privatization"; the managements of the concerned companies were names as competent partners. The union's right to voice its opinion about the "transformation plan" was also confined to consultation with the HTC management. However, the latter could discuss only their own ideas. Company managers were not in a position to negotiate on the standpoints of the real decision-makers in the SPA and the Ministry of Transport, Telecommunications and Water Management.

Consultations were held between the union and the officers of the Ministry of Transport, Telecommunications and Water Management in the drafting phase of the Telecommunications Act. There was no conflict between the parties. The idea of maintaining the HTC's monopolies as fully as possible received enthusiastic support from the trade unions, who felt that this would mean indirect job protection as the key areas of services employed most of the staff. In agreement with the company management, the trade union's basic aim is to ensure that capital is raised in the course of privatization, as it is assumed that this will bring new development projects and create jobs, or at least preserve the current level of employment. The trade union fails to see the dilemma that insisting on HTC's monopoly may contradict the crucial objective of attracting additional finance for development; preserving the monopoly inevitably inflates share prices (the sum to be paid by the foreign buyers), and growing revenues are channelled through concession fees mainly for budgetary purposes. As a result, there will probably be less resources available for further investment.

The trade union does not envisage any appreciable employment shock resulting from the privatization process either. They suppose that after network development, the HTC will remain the leading telecommunications supplier with about 18,000 employees. Some restructuring can be expected once development is completed as some of the network-building staff will become redundant. This is already a problem area because of tasks being assigned to subcontractors. Whether or not to subcontract work is now considered a purely operational business decision, to be taken by the management without any say on the part of the trade unions.

The relevant units' trade union representatives were involved in decisions to create limited liability companies. They were particularly concerned about the future financial position of the new business (looking for sufficient equity, quality of business plan, and inclusion of welfare costs). In fact all the employees were passed on to the limited liability companies formed in 1990. The old collective agreements remained in force for another year or until new ones came into effect in the spin-off companies. This was a reasonable arrangement from the employer's point of view also, as it solved many problems of the transition period.

The three successor companies of the Hungarian Post and even the smaller limited liability companies all made their own collective agreements — provided that a trade union organization existed at the given unit. There are no unions in companies created for new

operations that recruited staff subsequently (WESTEL is a typical example). The HTC collective agreement is used by the daughter organizations as a basis for local negotiations, taking always into account the financial position of the particular company. Employers insist on the strict legal default interpretation, namely that each organization must have its own collective agreement, with the powers of HTC headquarters and trade union limited to moderation. The competence of the company managing director with respect to collective bargaining is claimed to be absolute, and not limited by interventions on the part of the owners.

Neither at the HTC nor at the limited liability companies do collective agreements include provisions relating to staff reductions. At the HTC the provisions on wage increases are renegotiated every year. In 1992 no agreement was reached about the "company minimum wage" (12,000 forint was demanded and 10,000 forint offered). While it was agreed that the annual wage bill would be increased by 16 per cent, the system of allocation between different units in the organization followed the old pattern of central wage control, with each units' wage bill calculated on the basis of the performance and efficiency index of the unit. As the company trade union and local trade union officers both advocate a flexible wage negotiation system, bargaining started again at local level. In practice, what was at stake in these local negotiations was the allocation of wages between different groups of employees. The trade union representatives do not have access to personal data; at the shop-floor level, however, adjustment in wage rate virtually means negotiation by individuals.

A compulsory wage bracket system to be applied to all jobs is practically ruled out by this system of wage determination. The impact of a local labour market and the old development priorities are strongly reflected in wage differences. (Any chances of the slogan "equal pay for equal work" being realized are in practice thwarted by existing differences between the eastern and western regions of the country.) In principle, the trade union stands for improving the position of the lower strata, reducing wage differentials, and moving towards a more homogeneous wage system. In fact, the HTC does not have any effective job ladder or promotion system. The old bureaucratic wage bracket system had already been abolished in the Hungarian Post. It is no more than a general truth that working for HTC means job security.

Trade unions are consulted about further training, but the collective agreements do not address issues such as the funds available for training, the targeted skill structure or contents the conditions for individuals attending courses. Collective agreements only contain provisions on reduced working time, consequences of in-house transfer, and exemption from the liability of repayment for damages caused by workers in some special cases.

The privatization strategy is criticized by the trade union because of the lack of a well-developed employee ownership system. Considering the high asset value of the company, even a small share could be quite significant and even the management admit that this would encourage popular acceptance of privatization. (Owing to the magnitude of the equity, there is nothing to fear from the acquisition of shares by management.) "Property notes" were issued on two occasions in the amount of 300 million forint and involving 20-25 per cent of the staff. (Details are treated as confidential information in the HTC!) The idea of eventually detaching the welfare component from the company assets as the basis of a future corporate insurance system has also been considered. However, the details remain rather obscure for the time being.

3.2 MICROSYSTEM Co.

Microsystem is one of the private companies formed in the early 1980s that achieved rapid success in the area of personal computer production and trade. These operations made possible dynamic growth in terms of equity and staff alike. Later Microsystem diversified its activities and was transformed into a joint stock company. The President of the new Hungarian "capitalist class", also known for his public activities and very active in business associations. Microsystem consists of a staff of 120 people altogether; it is involved in trade and professional services but no longer in manufacturing. Microsystem now maintains a national network of 11 outlets, with service units and a total staff of 50 people.

Microsystem has recently entered the telecommunications business. The idea of domestic investment companies stems from the HTC's need for development finance combined with its reluctance to admit an international trade partner into the network. (This could endanger the privatization of the entire company because admission of one or more potential partners in advance could disturb competition.) There is strong political pressure to increase the telephone penetration rate, as a result of which local governments usually participate in the development companies. At the same time it is becoming clear that the purchasing power of the population is very limited. The fee for connection has had to be lowered by the telephone companies (from 90,000 forint to sometimes as low as 25,000-30,000 forint). Nor are returns on investment guaranteed. Moreover, only those telephone companies that were formed together with the HTC have remained healthy as local suppliers need to be linked up to the HTC national network.

The first telephone company was formed in 1991 by the HTC together with KONTRAX (a private business that has developed very rapidly) and the local governments of three Budapest districts. Thus encouraged, Microsystem ventured to form two companies, one for a district of Budapest and one for Pápa and its agglomeration. The investment of 1.3 billion forint in Pápa is fairly insignificant compared to investments by other telephone companies. Even out of this equity the local government has a share of 1 per cent, while the rest is divided equally between the HTC and Microsystem. The function of the company is actually that of an investor spending the money pooled for the purpose of development. Its team is in the process of being set up, with four or five professionals hired by the managing director. Experts with the necessary specific knowledge can be found at the HTC only. (However, the private firm cannot offer a higher income, as the HTC pays between 70,000 and 90,000 forint a month to highly qualified professionals in the most sought-after categories.) If the firm later decides to operate the exchange of 15,000 lines, it will need to employ a further 50 or 60 people. The advanced technology will not require more. However, it can also assign the operation of the exchange to the HTC (this decision will depend on future telecommunications policy and the tariff system), in which case the exchange will have virtually no implications for employment.

Microsystem's interest is mainly that of an investor. The telephone business is assumed to have a high earning potential, so Microsystem may maintain a 5-10 per cent long-term share in the new company. If operation is not favoured by new legislation, this stake can be sold. On the other hand, Microsystem also has an interest as a supplier of equipment (telephone sets, fax machines, computers, etc.); thus it is actually creating a market for itself. In this market the HTC has virtually given up its monopoly position; this is the only really free, competitive market in the Hungarian telecommunications sector today. The interests

of KONTRAX and other private firms entering the field of telephone network development are more or less similar.

3.3 The First Hungarian Telephone Cable Ltd. (EMTEL)

Like the Hungarian Post as a whole, the network-building department also used to enjoy a monopoly position. The predecessor of EMTEL built 50-60 per cent of Hungary's telecommunications network over several decades. The scope of its operations was not limited to carrying out network construction; it also included research and development, design and documentation of networks — the company even owned a precast concrete manufacturer. Naturally most of its income was generated through construction. Jobs were scattered all over the country. Many employees commuted or moved to different areas to work.

Apart from its monopoly position, labour shortages were another typical feature of the Hungarian Post in the 1980s. In addition to 700-800 full-time employees, the telephone cable department regularly hired a construction battalion of the Hungarian Army; this represented a labour supply of 400-700 people, used flexibly according to the amount of work available. Teams were also borrowed from co-operative farms, and a significant number of intra-enterprise teams (VGMK) were employed, especially at weekends. (At the busiest times eight VGMK organizations with a total membership of about 200 were active, mainly in basic construction operations. The two surviving such organizations include a team of surveyors and a team manufacturing customized products, both highly specialized and skilled).

Since 1990 Emtel has been operating as a separate business unit, but it is practically fully owned by the HTC. Although 0.9 per cent of the shares are held by the top 50 people in the organization, their stakes, ranging from 20,000 to 100,000 forint, do not represent any actual rights given the total equity value of 320 million forint. At the time of establishment, the new organization had to keep all the existing staff on their original employment contracts (which meant that everybody with a long period of service was eligible to a severance payment amounting to six months' salary) and take over all the fixed assets. It also had to receive and store a considerable amount of materials used only for the maintenance of obsolete equipment. Owing to its own cash-flow problems, the HTC as founder provided a rather small amount of revolving assets, covering the operating costs for two to three months only.

In the first two years the organization performed quite well. In the meantime, however, the network-building market began to change. Construction firms that were losing their original markets made bids in the hope of gaining big development projects. The market is dominated by personal contacts rather than tangible criteria such as costs or technical capabilities, so it can happen that a project is finally implemented by EMTEL as a subcontractor of the winner of a tender. At the same time many contractors work as subcontractors of EMTEL. (These subcontracting relations go back to the 1980s when the Hungarian Post had a "supply liability" and it trained employees of third parties in the skills of network building.) The smaller private competitors have gradually been replaced by bigger ones such as the FÁZIS Co., formed by 96 private individuals with sufficient connections with bankers to finance projects costing billions of forint.

The HTC has remained the number one customer. The roles of shareholder and customer are separate here. At the time of forming EMTEL, the HTC promised orders to the value

of 700 million forint a year, however, it has actually placed orders only to the value of 250 million forint. The HTC department that places orders refers to the law of fair market competition and refuses any request to give preference to HTC subsidiaries. Lately EMTEL has accepted contracts to install emergency phone boxes on motorways and it has won more than one international network-building tender.

EMTEL's revenue dropped from 2.7 billion forint in 1990 to 1.1 billion forint in 1992. Eighty per cent of its income was earned by network construction, 10 per cent from planning and 10 per cent from the sale of precast concrete units in 1990. An absolute drop in output was recorded in 1992. In the first half of the year EMTEL did practically no work — everybody was on cold weather leave — but rent payments had to be continued. This was reflected in the company profits: Emtel ended up with a loss of 360 million forint in 1992. Help finally arrived from the HTC in autumn 1992 in the form of a loan of 120 million forint. At the same time the HTC does not fail to charge substantial rents for its property. (It is agreed that rents should be increased each year to reach the market level in 1993.)

In April 1992 Emtel initiated bankruptcy proceedings. Despite its serious cash-flow problems it managed to pay all its debtors before the court decision, so it finally escaped bankruptcy. Upon the request of the shareholders a recovery programme was drafted and approved after several rounds of discussions. The company's financial position seems to have stabilizes. EMTEL hopes to repay the loans without any problem. Although currently it has enough orders, its profit will be devoured by penalties for late delivery. (KONTRAX won a tender and sub-contracted the work to EMTEL; however, the latter is unable to maintain the rigorous daily schedule.)

The staff at Emtel was reduced from 1,100 at the end of 1991 to 750 by the end of 1992. The number of staff actually working on network installation was reduced from 640 to 380 (40 per cent these are unskilled manual ditch diggers). In the first half of 1992 the method of slow and steady "headcount sinking" was used, followed by mass lay-offs in the summer and early autumn. Blue-collar and white-collar groups were affected equally, although many of the latter left voluntarily. The initial plan was to dismiss people who commuted from a distance of more than 50 kilometres in order to save travel costs, but in the end a system of selection on quality grounds was implemented.

Redundant employees received severance payments according to their legal entitlements; some people (30 altogether) expected to receive a pension through an early retirement scheme under which three years' costs were covered by the company. The "lay-off committee" assisted in drafting guidelines and administering grievances, but it was not responsible for selecting the employees to be dismissed.

The relatively low number of grievances taken out by redundant workers may be due to the fact that many people have second jobs. The more enterprising ones set up independent businesses and made some investment while working in VGMK organizations or formal second jobs. Working for a VGMK team used to be a good way of making extra money. Now many people work for GMK teams, small businesses organized outside the company. Other people kept their full-time jobs and obtained licences to work as designers or network assemblers. Last year when it became obligatory to report any second job, 92 people — in fact all the key technical staff — declared that they had a second job. They actually do the same work as in their main job and for the same customer, that is, HTC Investment Department. Naturally the small businesses get the small tasks. This area, too, is dominated

by personal relationships established while working for the company. All strata of the labour force are involved in these businesses. This is obviously detrimental to the company; it is "known to everybody" but there is no way of preventing it, frequent scandals notwithstanding. Emtel, as the main employer, naturally tries to control second jobs with its competitors and abuses (typically theft of materials), but its efforts are fairly futile. Up till now only one person has been dismissed for theft.

The new competitor organizations are naturally interested in recruiting Emtel employees, either as full-timers or for a second job, because their skills, information and contacts are needed if these organizations are to be able to undertake activities associated with the HTC. (The same is true in respect of technicians working on the installation of telephone exchanges. COMEX, the limited liability company formed for this purpose, has a monopoly in vain as most of the competition comes from its own employees.) Small firms are typically formed by people from the HTC. Tender processes turn out to be meetings of old friends and acquaintances.

Wage competition has developed to a certain extent between competitors seeking qualified professionals, and EMTEL must adapt to the new labour market conditions. Last year's wage increase was specifically aimed at paying the "market value" to the best 50 experts. Foremen and chief engineering staff in this category are paid 48,000 to 82,000 forint a month, and prominent skilled workers (such as optical cable layers) are paid at a rate of 240 to 260 forint an hour. Otherwise the average salary was a modest 18,000 forint per month in 1992.

Trade union membership has shrunk to 240 paying members. The Emtel trade union complains that the HTC trade union and the sectoral federation have neglected them. They pay 40 per cent of their membership fees to these union centres but do not receive any commensurate services in return. There has been a fierce debate between the HTC and the Emtel trade union about access to one of the former corporate holiday places since the formation of Emtel. For two years the local union has been trying to prove in law that it was once built from the money of trade union members now employed by the new limited liability company.

Trade union representatives are informed about the financial position of the company through informal channels. There is no formal participation, nor was there at the time the crisis management programme was drafted. The trade union has no chance to comment on subcontracting agreements.

The Emtel collective agreement largely follows the pattern of the old Hungarian Post agreement. The trade union was present at the talks on staff reductions, but the employees in fact made few claims. Many of the best workers left voluntarily, and the principle of selection by quality was actually agreed by the trade union. In particular, it agreed to dismissal of the "undisciplined" or unskilled staff. People who are laid-off cease to be trade union members and have no relations with trade unions.

In recent years, when wages have been increased, foremen and more highly qualified workers have received larger amounts with the consent of the trade union. This principle of distribution has not been an issue at the official wage negotiations. The passive attitude of the trade union with respect to wages may be explained by the fact that earnings have

always been determined by incomes from second jobs; since the time of VGMKs this has been outside the trade unions' concerns.

3.4 Mechanical Works (MW)

The huge facility of Mechanical Works (MW) located outside the administrative borders of Budapest, was an ammunition manufacturer before 1956. Its activities were gradually diversified to include different "civil" product lines. Oil stoves were the big hit of the 1960s (500,000 units a year). Licences were bought and enormous batches of Wagner painting equipment, telephone sets and condensers were produced for the safe Soviet market.

The collapse of the Soviet market was a disaster for all these operations. Potential Soviet customers for the once extremely successful painting equipment can no longer pay. Demand for condensers is limited; since the fiscal restrictions, the same is true of ammunition. Most of the staff employed in these operations were dismissed and only some key people have been retained. The current staff is in the range of 1,000 as against 2,500 in the mid-1980s. MW used to have two rural plants; one of them has closed and the other has reduced its staff complement from 1,000 to 300 employees.

Telephone set production is perhaps the best surviving operation. Moreover, the different new areas of telephone development offer the only prospect for future development. Last year MW, together with MONÉTEL of France, won an HTC tender for public payphones and card-operated equipment. The order includes 20,000 sets to be delivered in about a year as well as electronic control systems, again to be supplied with an international partner. MW is making other tenders in conjunction with ASCOM, the Swiss parent company of the French MONÉTEL. At the same time MW has lost its old monopoly on the domestic market for traditional telephone sets. This segment of the market has been invaded by the highest number of small importers and even local manufacturers.

In preparation for privatization, MW was broken up into four divisions according to product lines. The first step was to transform the whole company into a joint stock company. The SPA assigned a UK consultant for the privatization process. The consultant proposed to find different investors for the different operations. (Predictably, the joint stock company as a holding organization will create smaller limited liability companies for each operation; it will then withdraw from its role as owner by gradually liquidating itself and eventually taking away the debts and dead stocks.) The tenders for investment have been issued but the results have not been declared as yet.

The potential buyers of the telephone set manufacturing division include the company's existing French and Swiss partners in bidding for HTC orders. Consequently the managers, who are acquainted with the prospective investors, try to influence the privatization discussions that take place at the SPA. This is not simply a matter of selling out the state's share and raising capital for development. Also at stake is whether the multinational's headquarters itself or its affiliate company from another country will be the controlling shareholder (French MONÉTEL or Swiss ASCOM). This point is considered to be irrelevant by the SPA staff (as are the company's requests concerning employment guarantees and technology transfer following privatization); they only care about the amount and timing of the SPA's income.

Investors have shown little interest in other than the telephone operations. There may be some UK and Japanese interest in condenser production, but in contract work rather than its acquisition. The painting equipment manufacturing is a hopeless case, while a Swedish manufacturer may be interested in the production of commercial explosives.

Considering this lack of interest, it may seem surprising that the Employee Share Ownership Programme (ESOP), now organized at MW, is aimed at preserving the unity of the organization and acquiring it as a whole. The ESOP team is backed by the trade union (and ostensibly by the former party secretary). The management naturally resists this scheme interfering with its privatization plans, as it could deter international buyers even if it rapidly proves to be a failure. The management evaluated the ESOP business plan as an unrealistic one, which simply ignores the small size and limited purchasing power of the market and makes unfounded promises in order to keep the jobs of all the staff. In any case, the ESOP loan, however favourable the terms, would absorb the company's profits for the next ten years and deprive it of any funds for development, for improving its cash-flow position or, indirectly, for employment growth. The ESOP proposal was not rejected by the SPA but it recommended that the organizers should discuss with investors the possibility of some sort of joint buy-out. Proposals have already been received from two smaller firms working in other areas to form a joint venture (a German manufacturer of hand tools and a Gyôr limited liability company seeking a Budapest location).

Though indirectly, the problem of employment was raised in the tender for card phone boxes. This tender was subject to the World Bank's standard selection process. This was actually intended to offer a 15 per cent price advantage to any bid proposing to retain 20 per cent of the production in Hungary. Owing to the high-tech specifications, only international bidders have the potential to participate in partnership with a Hungarian company. The basically labour-intensive production phases, which require a relatively highly skilled workforce, are to be performed in Hungary. (The Hungarian partner, with its backward research and development facilities, will not have any real chance of contributing its engineering products.) The Hungarian management is likely to be interested in long term co-operation, and try to make itself indispensable and to persuade the potential privatization partner to avail itself of the opportunities for low-cost, high-quality, reliable production in Hungary. There is absolutely no assurance, however, that the operations of a multinational will long remain in Hungary. The last shipments from Hungary under the HTC tender won by MW-MONÉTEL will be in August 1993. The true objective of the assistance and investment of western partners is naturally to have access not only to the Hungarian market but ultimately to the former Soviet market through their Hungarian subsidiaries.

In the Budapest agglomeration area MW is an average wage-payer. The monthly wage for semi-skilled work is between 13,000 and 16,000 forint. Middle-aged electrical engineers were recently hired for salaries of 30,000-40,000 forint. Wage levels at the one remaining rural location are fairly low. The availability of relatively cheap labour, well trained in assembly, is considered by the management as a comparative advantage.

The situation with lay-offs following the collapse of MW's market was not bad. Selection on grounds of quality was the declared principle for the implementation of staff reductions. Most of those who were made redundant came from the less qualified, less experienced, so-called "undisciplined" labour force. At first the staff was streamlined by people leaving voluntarily. Deliberate employment reductions began only in summer 1991. At that time 150 people were transferred to other jobs and about 100 actually left. Later another 100

employees left gradually in groups of not more than ten. Of the roughly 300 people who left MW from 1991 till mid-1993, 50 were of pension age and 80 left under the early retirement scheme; only 100 were actually given notice.

Since about summer 1991 the collective agreement has provided for severance pay, using more or less the same brackets and values as were later included in the Labour Code. As an additional benefit, those who are dismissed are free from work for the complete period of notice. (The law only provides for half of this period, but at times when there are no orders this does not involve any sacrifice for the company.) The pace of staff reduction slowed down in 1992, mainly because of the financial burdens imposed by notice periods and severance pay, especially as the remaining staff, with higher qualifications and longer service, would be more expensive to lay off. The trade union did not make any strong stand over staff reductions.

The really important question now is whether the continuity of service of people who are transferred to smaller limited liability companies will be recognized legally, that is, whether they will be entitled to severance pay. The MW management tried to include in the collective agreement a provision that no severance is payable to employees who have refused the offer of another job. But even the company's own legal consultants admitted that this provision would be unlawful, so the trade union was able to fend it off.

Staff reductions have not yet come to an end, however. It is estimated that the Budapest facility must shed another 100 employees. The cost of this would be in the range of 10-20 million forint, which MW cannot afford in its present financial position. The rural facility also faces problems as it will not in the long term need more than 100 of its existing staff of 300. Naturally all this depends on further discussions on privatization.

3.5 A multinational telecommunications equipment manufacturer[12]

In the years 1987-88, the predecessor factory, then celebrated as an "outstanding state enterprise", sold most of its output on the Soviet market. It supplied mainly telecommunications equipment and control equipment for gas and oil pipelines. In 1989 the management decided to divide the enterprise up into several small companies. The objective was to force the rural facilities to improve their efficiency and adopt a more autonomous business management. The privatization story thus began with the creation of entirely enterprise-owned limited liability companies. A company was formed with nominal equity for the machine tool-making shop; however, it went bankrupt and was liquidated in a short time. The 100 employees transferred there were taken back by the parent company. Another limited liability company formed with a staff of about 100 for equipment installation and repair services was more successful.

Discussions about financial involvement with foreign partners went on for some time. The process accelerated towards privatization when a tender for delivering exchanges to the HTC was won by the joint bid of the enterprise and the present owner in 1990. The sale of the company was finally negotiated by the SPA. As the price was pushed down by the investor so the equity share to be sold climbed; finally the multinational enterprise acquired the entire company. The actual sale was postponed until September 1991 and the registration of the limited liability company to April 1992. This delay was partly due to the fact that the assets

[12] The company permitted publication of the research findings only if the name of the firm was not mentioned.

were valued several times because of disagreements over the selling price. The issue of employees buying shares was not considered in the privatization process; neither the managers nor the trade unions raised it seriously. (In fact, the multinational enterprise would probably have accepted it. In its other Hungarian subsidiary the welfare component of the company assets was paid into a separate foundation and an ESOP scheme was implemented.)

During the preparatory negotiations, the enterprise management and the representatives of the buyer agreed to divest the rural facilities prior to the takeover. Instead of the then fashionable arrangement of setting up limited liability companies, the more radical alternative of total divestment or close-down was preferred. One facility manufacturing electromechanical equipment with 450-500 employees was closed before the end of 1990. Employees were compensated by 3-4 month periods of notice in lieu of severance pay. In April and May 1991 a similar facility with 400-450 employees was transferred to another local factory. The new owner did not pay a penny but agreed to take over the entire staff.

It was only at this point that an agreement on redundancies and compensation was reached with the trade unions. The terms were quite favourable, and severance pay could be as much as 12 months' average pay. This revision of the collective agreement was in anticipation of the takeover by the multinational enterprise (originally scheduled for June 1991). Basically, the management wished to present the new owner with a *fait accompli* and to sell the high severance pay as a company tradition, which naturally covered managers as well. (Compulsory severance pay was enacted only six months later in the Labour Code.) The move was successful: though this provision of the collective agreement will formally expire by the end of 1993, it will remain in effect for the so-called reorganization period. The management has already been instructed by the international headquarters to return to the six-month minimum provided by law after the reorganization period.

A further rural factory was divested in May 1991. This one simply continued to supply coils for new products to the parent company as a subcontractor. It was transformed into an independent state-owned company and retained all its 700 employees. Finally, in June 1991, the last rural facility, with a staff of 450, ceased production, but its warehouse base was kept. It continues to employ a number of people on short-term contracts. Its present staff of 30-40 people may form an independent limited liability company as a subcontractor. (Under this strategy, the management can implement staff reductions while at the same time maintaining the availability of specialized skilled labour.)

The change of ownership entailed profound changes in management. There are four managing directors (two Austrians and two Hungarians) and several Austrian middle managers. Each Austrian was assigned to a corresponding Hungarian manager, and the Austrian member of each duo has the final say. "Assistants" of other managers were nominated from Vienna. Personnel decisions about senior managers were initially made in Vienna, but this is now the responsibility of the board of directors or the supervisory committee. (This is a supervisory committee in the German sense, with actual powers; it includes trade union representatives.) The Hungarian managers are embarrassed by the uncertainty. They have no reliable information about headquarters' intentions, for example about the range and pace of future staff reductions. A business plan is available but it changes frequently.

In the central factory employment has been reduced from 1,900 to 1,200. Staff reductions started with voluntary leavers. The costs of early retirement for 300 employees were borne

by the SPA, on the insistence of the multinational enterprise. At the point of take-over the company still employed 1,650 people. The SPA then met the costs of severance pay or early retirement for a further 450 employees to bring the total staff complement down to 1,200.

The SPA agreed to do this because of a specific employment provision in the purchase and sale agreement, which the management of the company insisted upon. Excluding the trade union from talks did not present the SPA with any difficulty: any substantial discussion was refused on the grounds of confidentiality. The management was successful in persuading the multinational enterprise to accept the remaining 1,200 employees on their existing contract. The SPA might have been persuaded to back this employment requirement because it provided some sort of satisfaction (and some defence against future political attacks) to the SPA officers, who were selling the company for a heavily reduced price. Later there were discussions about how this provision was to be construed. The foreign managers included in the total of 1,200 inactive registered employees of the company (women on maternity or child-care leave and soldiers). This made a substantial difference (initially 250 people), especially as following rural lay-offs the central factory had to take over more such inactive registered employees.

The employment provision in the contract was strictly applicable at only the date of takeover. At the same time the company's business plan is drawn up for five years. For the first years losses are planned because the company will be spending a great deal on renewal of buildings, training, and new equipment. Thereafter, the company must be profitable, and this will require a still smaller staff, of about 600 people only.

Despite this the staff complement is still over 1,200. Although altogether over 2,000 employees have been shed without difficulty, the scale and rate of further lay-offs is an issue between the new foreign managers and the old Hungarian ones. The point at issue is whether to keep the old production line or remove it, as the Austrians want to do. Maintenance of current staffing levels depends on the survival of the old technology. According to headquarters, it must be phased out by the end of 1993. Pending this, shipments will be made to paying customers only and then the whole operation, including equipment, markets and staff, will be transferred to another firm. Negotiation is underway to find a small firm which is prepared to take over the old production and related services.

The new digital technology will come on-stream by mid-1994. The HTC represents the key market, as the multinational enterprise already has subsidiaries in former Czechoslovakia and the former Soviet Union and it wants to avoid any competition between its own companies. However, this advanced technology has incomparably lower staffing requirements than the old production process. Apart from manufacturing, the multinational enterprise may put some software adaptation activities out to its Hungarian affiliated company. It is not specified in the HTC telephone tender exactly what percentage of the output value should be produced in Hungary; in any case, a multinational can easily circumvent such a regulation. As the same switchboards are manufactured in Vienna or Berlin, importing some components may still make better economic sense, despite the higher wage costs, than installing all production capacities in Hungary. The five-year period of the tender seems too short in the light of the five-year period of coming on-stream.

The new-generation manufacturing, the expanded commercial departments, and the software development activities altogether need a staff of 500 or 600 people. However, it has been estimated that only 200 of these can be employed from the existing staff. The

others, with new skills, will have to be recruited. The employees of the present central factory already include about 110 newcomers (software engineers, sales agents, solderers). The hiring policy of the foreign management actually states that only university or high school graduates who speak other languages and are not over 40 years of age will be considered. This has naturally triggered objections on the part of the Hungarian managers, as the core staff of the factory consists of people between 40 and 50 years of age. There has been a real fight to prevent the dismissal of people over 40 if they are otherwise capable of doing the work.

Attempts have also been made at retraining. Thirty Hungarian software developers received training in Vienna for almost a year. Training, both in languages and in professional skills, is a substantial investment item. As neither languages nor software skills are specific to the company, the company is vulnerable to people leaving with their new skills. As employees actually undertake training for the sake of the company, they cannot be forced to accept any modification of their personal employment contract. In the case of disagreements, the courts have already decided in favour of the employees.

The wages system has been simplified; only the base rate and two or three types of compulsory supplement are now paid. Top managers receive bonuses regulated by separate contracts. Middle managers and heads of department are paid between 100,000 and 110,000 forint monthly but usually do not receive bonuses. The wages paid to blue-collar employees are not high. Young female solderers are hired for a near minimum hourly rate of 70-74 forint. The lowest monthly wage paid in the company is 11,000 forint per month. However, the main objective is to cut back on wage costs. The old value system has been reversed, and production labour is now clearly at the bottom of the pile. As the traditional production process is discontinued, these people are the most vulnerable to redundancy; consequently their positions are undefended. In any case, the company is rated as a fairly average payer in Budapest, with an average wage of 29,000 forint monthly (20,000-21,000 for blue-collar workers and around 40,000 for white-collar categories).

Two trade unions are active in the company. The Iron Workers Union's membership is in the range of 40 per cent, while the independent trade union may have no more than a dozen members. The company has exact figures only about the Iron Workers Union because membership fees are deducted from salaries (about 400 members, but the number is steadily diminishing). Members of the independent unions do not declare their membership, as they are not bound to do so. Cooperation between the two unions is smooth, and they always harmonize their views before presenting them to the management. Nor has the management attempted to provoke one against the other. A joint committee has already been set up for works council elections, as required by law.

All in all, the trade unions are satisfied with the way redundancies have been handled in the company. A staff reduction team was set up, with members assigned by both trade unions. It has achieved considerable results with respect to early retirement and in-house displacement arrangements.

The trade unions received no proper information about the negotiations that took place before privatization. They learned that the SPA had accepted the management demand that 1,200 people should remain in the employment of the company but they did not receive a copy of the agreement, which was said to be confidential. If the new owner had not been

willing to comply with this provision, the unions would thus not have been in a position to enforce it.

Privatization has not interfered with the continuity of trade union rights nor with the validity of the collective agreement. Although the management tried to use the shrinking union density as an excuse for not negotiating with the trade unions, it was forced to do so because the unions collected the signatures of non-union workers in support of the union negotiating team. Relations with the works council are developing in the Austrian parent enterprise, but this has not yet influenced local affairs in Hungary. (The Iron Workers Union was invited to the international meeting of works councils held at the enterprise headquarters. The Western colleagues are typically not happy with the export of jobs to Eastern Europe.)

In the trade unions' opinion the agreement of a company minimum wage (11,200 forint in 1992) is their greatest collective bargaining success. The annual increase (15 per cent in 1992, said to follow the inflation rate) was adjusted to the recommendations of the Iron Workers' sectoral collective agreement. The scope of trade union involvement is limited to enterprise average wage levels and the general outlines of wages policy; individual details are not available to them. In practice, however, actual changes have not followed this pattern because of the simultaneous discontinuation of extra payments. In 1992, at a time when the company had absolutely no order, VGMKs were wound up; the total earnings of the once most privileged workers thus dropped despite the raise in gross wages. At the same time the trade unions complain that remuneration and fringe benefits for managers (such as company cars) are escalating.

4. Conclusion: Changing labour relations

Most of the lessons of our case-studies are in line with experience gained from other sectors of the national economy. The fortunes of telecommunications equipment manufacturing firms, in particular, are more or less typical of engineering firms in general, because the reasons for their poor economic situation are similar: loss of previous markets, lack of finance, poor management, backward technology, overstaffing, etc. If they can avoid total economic collapse, recovery may stem from their possible involvement in telecommunications development. Their economic prospects are even better as the providers of telecommunications services. Instead of the now typical problems of contraction, rather exceptionally, they face the problems of growth and new technology.[13] Capital investment and development in telecommunications pose different questions in the field of human resources too, such as criteria for recruitment, further training, improvement of remuneration systems, and performance policy.

The case-studies also reinforce earlier research findings. Enterprise managers usually try to avoid immediate dramatic reductions in employment in order to ensure a smooth transition during the legal and financial process of transformation and privatization. As far as the unions are concerned, their primary interest is to preserve as much as possible from the "achievements" of the "old" system of industrial relations. There is certainly some continuity in respect of industrial relations between state enterprises and newly privatized firms. However, the union claims are not confined to the transition period. They also attempt to resolve major issues for the longer term: to preserve jobs, welfare facilities and other employee benefits; to extend employee ownership; to secure the continuity of contractual relations between employer and employee. Owing to the tendency to overstaffing among state-owned enterprises, safeguarding the previous level of employment (or, more reasonably, "fair" treatment for people who are laid off) seems to be the least successful area of union activity.

Although the established legal framework ensured that the basic issues regarding employees' prospects after privatization (level of employment, wages, training, access to welfare facilities, and other provisions contained in collective agreements) could be discussed, the possibilities for real participation seem fairly limited, depending on the actual bargaining strength of local trade unions. It is obviously in the workers' interest to transform this talks ("consultation") into negotiations, and finally to conclude a written (collective) agreement, but the sellers of the firm (managers and state officers) usually refuse to strike any binding agreement. The general economic position of the new firm (details of contracts, equity structure, business plan, production mix, further investments, subcontractors, etc.), which would generally be the subject of discussions, is not on the consultation agenda. Company managers tend to refuse to disclose such information on the grounds of business confidentiality, while state officers, in the role of sellers, are more interested in securing the

[13] A major decrease in employment is characteristic of almost all sectors of the economy (see table 9). In some subsectors hit hard by industrial restructuring, however, the drop in employment is more dramatic (for instance, 44.5 per cent in mining and 41.3 per cent in metallurgy between 1988 and 1992).

maximum income for the state than in industrial policy and employment considerations (HTC, MW).

From 1992, with the steep growth in unemployment, a gradual shift in emphasis towards employment issues can be detected. Such issues were stressed in the 1992 Property Policy Guidelines (the Parliamentary resolution governing the activities of the SPA). The new laws on privatization stipulated that an "employment plan" should be considered. These legislative changes were obviously stimulated by the trade unions; however, their implementation in the everyday practice of the SPA is rather contradictory. Nowadays, the SPA generally accepts valid collective agreements as part of a company's attributes, but rejects union requests to renegotiate them.

What is generally offered to employees is a minority shareholding in their company at a discount price. However, despite major union efforts devoted to making the terms of employee shareholder projects more favourable, workers' shareholdings have generally remained negligible — much less than would be needed either to exercise any influence over company affairs or to introduce a real incentive element into pay systems (HTC, Emtel). Moreover, management prerogatives relating to the internal distribution of the gains of such projects may cause new conflicts within the company. The evolving role of the new ESOP law is also contradictory. Initiatives for employee buy-outs are sometimes based on unrealistic economic forecasts. Moreover, they may jeopardize the viability of a firm that is in a precarious financial position (MW).

In fact, most former state-owned companies have to face massive lay-offs. Newly privatized companies often take over all the employees from the predecessor organization, so the necessary dismissals or restructuring usually take place in the period succeeding the takeover. These long-postponed lay-offs and organizational changes (for instance, divestment, hiving off or closure of underutilized internal service units and remote rural production facilities) are necessarily the first steps to be taken by the incoming foreign management. It rarely happens that a prospective buyer insists on employment reductions or closure of unnecessary establishments as a precondition of the takeover (the multinational enterprise).

It seems to be a special feature of the telecommunications sector that agreements between the government and buyers or equipment suppliers often include a clause about employment levels or the share of production to take place in Hungary. However, the effectiveness of such provisions is dubious, because the Hungarian parties concerned are in no position to enforce them (the multinational enterprise, MW, HTC).

While the unions are usually content with the provisions for severance pay and extended notice periods, collective agreements rarely contain stipulations with regard to the procedure for lay-offs or company obligations in relation to retraining (MW, the multinational enterprise). Nor can the unions cope with the situation of organizational changes that have resulted in reduced job security (Emtel). Employers' attempts to evade the severance pay regulations contained in the Labour Code or in the collective agreement have led them to adopt various strategies, both at the time of privatization and during the actual lay-offs (MW). At the same time the unions' position is sometimes quite ambiguous: they tend to accept the managerial argument that employment reductions should be achieved by first phasing out unskilled, less experienced, and allegedly less disciplined workers (MW, Emtel).

The dramatic change in the labour market, namely the threat of unemployment plus trade union weakness, has undermined workers' previous bargaining position and reshaped almost all dimensions of workplace industrial relations. Wages and terms of employment correspond fairly directly to labour market conditions. The single nationwide labour market is confined to the highest strata of managers and professionals; job mobility elsewhere is quite restricted by real estate prices and inflexible systems of housing tenure. Privatized firms, as a rule, pay their employees the standard local wages. It is usually in the foreign owner's interest to utilize cheap labour.

Surprisingly, changes in wages systems have tended to involve replacing systems of payment by results with by fixed hourly wages. In fact, the threat of unemployment is itself a disciplining force; a change in wage levels is often accompanied by a thorough reshaping of the wages system, the termination of the complicated system of brackets, and the removal of means by which extra income can be earned (bonuses, overtime, VGMKs, etc.) (the multinational enterprise). The once typical juxtaposition of the official work organization and the "second" economy is now fairly rare (Emtel).

The retreat from binding contracts is a general problem of workplace industrial relations, not confined to newly privatized firms or small businesses. While the revised Labour Code envisages a greater use of contractual ties rather than statutory regulations, employers are unwilling to enter collective agreements. When the collective agreement inherited from the state-owned enterprise expires, the new owners often want to withdraw all the previous concessions. The employers' preference for relying exclusively on personal employment contracts is supported by a fresh ideological surge in favour of market freedom. The new Labour Code abolishes the union rights to be informed about individual wages and veto individual basic wage settlements (the multinational enterprise, HTC).

Legislative changes apart, the weak bargaining position of the trade unions is also a factor in determining the emerging new pattern of industrial relations. The weakness of the unions is mainly a result of the labour market environment and of their own organizational structure. At present union density is significantly lower than it used to be, regardless of whether or not enterprises have been privatized. Non-unionized plants are typically emerging in the case of "green-field" investments on the part of multinational enterprises and joint ventures with newly hired staff. Another reason for the "wearing down" of unions may be that many privatized companies come into existence as a result of the decentralization of large enterprises. In these small and medium-sized units unions face new problems; it is more difficult to continue collective bargaining relations with management, and sometimes even the recognition of the union is questioned by managers.

Annex

Table 1. Changes in legal structure of the organizations

	1988	1989	1990	1991	1992
State enterprise	2 378	2 400	2 363	2 233	1 733
Limited liability company	450	4 484	18 317	41 206	57 262
Joint-stock company	116	307	646	1 072	1 712
Cooperative	7 414	7 546	7 641	7 764	8 229
Small cooperative	3 108	3 223	3 155	3 101	2 941
Private partnerships	29 657	24 143	34 095	52 136	70 597
One-man businesses (self-employed)	290 877	320 619	393 450	500 000	606 207

Source: KSH (Central Statistical Office): Gazdasági folyamatok 1989-92. Foglalkoztatás, gazdasági növekedés, beruházások. (*Economic trends 1989-92. Employment, economic growth, investments*), March 1993.

Table 2. Joint ventures in Hungary
(No. of companies, foreign contribution to registered equity [bn. HUF])

	1989		1990		1991	
	No. of companies	For. contrib./ reg'd equity	No. of companies	For. contrib./ reg'd equity	No. of companies	For. contrib./ reg'd equity
Manufacturing	482	14.8	1 526	46.1	2 171	122.7
Construction	116	0.6	518	6.1	811	13.3
Agriculture	19	0.2	78	0.5	142	1.2
Commerce	444	9.8	2 336	16.3	4 203	35.1
Water management	0	0	6	0	8	0
Other material sector	58	0.5	199	1.5	234	3.0
Health, culture, etc.	20	0	53	0.2	67	0.2
TOTAL	1 350	30.0	5 693	93.2	9 117	215.0

Source: KSH (Central Statistical Office): Gazdasági folyamatok 1989-92. Foglalkoztatás, gazdasági növekedés, beruházások. (*Economic trends 1989-92. Employment. economic growth, investments*,) March 1993.

Table 3. State enterprise's legal transformation ("commercialization")

	1990	1991	1992
No. of enterprises	27	191	472
Book value (bn. HUF)	26	319	300
Audited assets (bn. HUF)	41	415	908
of which initiated by enterprises and/or investors			
No. of enterprises	27	153	116
Audited assets (bn. HUF)	26	255	129
of which initiated by the SPA			
No. of enterprises	-	18	31
Audited assets (bn. HUF)	-	150	186
of which carried out in the "self-privatization" project			
No. of enterprises	-	20	237
Audited assets (bn. HUF)	-	2	24

Source: PRIVINFO: Tények a magyar privatizációról 1990-92. (*Facts about privatization in Hungary, 1990-92.*), No. 14, 1993.

Table 4. State assets contributions to companies (initiated by enterprises and authorized by the SPA)

	1990	1991	1992
No. of companies	46	80	46
Book value (bn. HUF)	11	10	3
Audited assets (bn. HUF)	20	17	7
of which with domestic partners			
No. of companies	18	52	19
Audited assets (bn. HUF)	2	7	4
of which with foreign partners			
No. of companies	28	28	17
Audited assets (bn. HUF)	10	18	1

Source: PRIVINFO: Tények a magyar privatizációról 1990-92 (*Facts about privatization in Hungary, 1990-92*), No. 14, 1993.

Table 5. Main indicators of telephone networks in Eastern Europe

	No.of main lines	Penetration rate (lines/100 inhabitants)	Growth rate (1981/1991)	Desired growth rate up to 2000
Poland	3 121	8.25	4.84	11.8
Czechoslovakia	2 227	14.23	3.45	6.5
Hungary	916	8.66	5.56	12.3
Romania	2 171	9.44	4.53	8.2
Bulgaria	1 994	22.23	6.26	4.5
TOTAL	10 429	10.80	4.75	8.6

* in order to reach 27 lines/100 inhabitants by the year 2000

Source: HVG: Supplement on telecommunication, 10 October, 1992.

Table 6. Share of employment and investment in the service sector and transport and telecommunications in the Eastern European countries

	Employment share		Investment share		
	Service sector	Transport and telecommunications	Service sector	Transport and telecommunications	
Poland	33.5	5.8	43.4	5.3	1.0
Czechoslovakia	39.4	6.5	40.2	9.5	1.8
Hungary	38.9	8.3	49.8	10.7	3.9
Romania	26.0	7.1	34.6	10.2	0.4
Bulgaria	34.4	6.7	36.2	5.9	2.2

Source: Major, Iván: Private and public infrastructure in Eastern Europe. Oxford Review of Economic Policy, Vol. 7. No. 4.

Table 7. Index of output and employment in telecommunication manufacturing
(%, previous year =100%)

	Output	Employment
1989	102.0	91.3
1990	89.7	84.8
1991	59.0	74.3
1992	84.1	n.a.

Source: Central Statistical Office: *Monthly Bulletin of Statistics*, No. 1, 1993; *Statistical Yearbook 1991*.

Table 8. Major limited liability companies established by the HTC (over 10% of the shares owned by the HTC)

Company name	Operation	HTC's share	
		mn forint	%
Converted from former HTC departments			
Please	Telecommunications and data transfer	78.9	100.0
Comex	Sub-exchange services	2 844.9	57.5
Emtel	Underground network building	718.2	99.1
Poti	Telecommunications planning	96.6	97.2
Secotel	Equipment repair	90.0	100.0
Centrophone	Sub-exchange services	380.0	100.0
Videotex	Videotex services	179.0	100.0
Telé-Ep	Network-building	113.8	100.0
New joint ventures for value added services			
Westel	Cellular phones	417.2	51.0
New companies for local investment companies/development projects			
EPT (First Pest Telecommunications Co.)		718.2	47.5
Balatel		518.5	57.5

Source: HTC internal documents.

Table 9. Employment (000s) and employment index in different branches of the economy (previous year = 100)

	1988	1989	1990	1991	1992
Manufacturing	1 407.9	1 356.4	1 282.2	1 147.6	1 041.5
	-2.6	-1.7	-5.5	-11.0	-12.3
Construction	283.5	258.9	250.0	209.6	203.8
	-1.3	-8.7	-3.4	-16.2	-2.8
Agriculture	723.7	676.3	593.6	465.6	33.80
	-6.3	-6.5	-22.2	-21.6	-27.4
Transport and telecommunications	366.6	357.4	343.8	311.6	291.5
	-1.1	-2.5	-3.8	-9.6	-7.1
Water management	80.6	78.5	72.3	62.2	56.6
	-0.4	-2.6	-7.9	-14.0	-9.7
Commerce	449.4	440.3	422.8	384.9	452.4
	-1.7	-2.0	-4.0	-9.9	4.5
Other material sectors	44.9	43.5	41.4	27.0	28.8
	-6.6	-3.2	-4.9	-1.6	-11.9
Non-material sectors	1 215.0	1 248.5	1 162.6	1 124.4	1 224.9
	-1.1	2.7	-6.9	-3.3	8.9
Total	4 571.6	4 459.8	4 168.7	3 732.8	3 637.5
	-1.1	-2.4	-6.5	-10.9	-7.0

Source: Central Statistical Office. 1993. *Gazdasági folyamatok 1989-92. Foglalkoztatás, gazdasági növekedés, beruházások (Economic trends 1989-92. Employment, economic growth, investments)*, March.

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