

TRADE UNION RESPONSES TO GLOBALIZATION

A review by the Global Union Research Network

Edited by Verena Schmidt

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GLOBAL UNION RESEARCH NETWORK

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MULTINATIONAL COMPANIES IN BULGARIA: IMPACT ON LABOUR AND SOCIAL DEVELOPMENT

6

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Introduction

In 1999, the Institute for Social and Trade Union Research (ISTUR) carried out a survey of eight subsidiaries of MNEs located in Bulgaria (Daskalova and Tomev, 2000). A new 2004 survey covered 29 subsidiaries of 18 MNEs in Bulgaria.¹ In selecting the MNEs to be included in the sample three main criteria were considered: the presence of trade union organization; the size of the MNE (i.e. the largest MNEs in any given sector were chosen); and it must have been included in the original survey. The findings, therefore, cannot be applied to all multinationals operating in the country. For the purposes of the survey, fellows of the Institute interviewed the chairpersons of trade union organizations and human resource managers, using a semi-structured questionnaire. The research aimed to reveal the links between global and local development in the Bulgarian context, to outline the changes in industrial relations in multinational subsidiaries in Bulgaria in the previous five years and to identify good practices. The expectations concerning direct foreign investments, even at the start of the country's transition, had been that they would be an important means of achieving structural change within the economy, the technological renovation of enterprises and the transfer of a new organizational culture and industrial relations practices (Daskalova and Tomev, 2004). Today, 15 years after the start of change and the entry of foreign investors into the Bulgarian economy, the extent to which these expectations

¹ The subsidiaries studied operate in 16 sectors, and the headquarters of the parent companies are situated in 12 countries: Belgium, the Cayman Islands, Denmark, Germany, Greece, Iceland, Italy, Luxembourg, the Netherlands, Switzerland, Turkey and the United States.

have been fulfilled can be realistically assessed. The results have proved to be quite varied, as the paper shows.

The study shows that MNEs have controversial effects on the labour market and industrial relations in Bulgaria. They create many new jobs and preserve many others. Nevertheless, in all companies privatized by MNEs there were significant job losses. Both favourable and adverse effects were registered on industrial relations practices as well. The study identified potential for the Europeanization of industrial relations, albeit with differences according to sector, country of origin and type of company. Alongside the best practices of many MNEs that transmit European social values and patterns of cooperative management and social partnership, in some MNEs attempts have been made to erode industrial relations and social dialogue and to marginalize trade unions.

The role of the multinationals

The MNEs play a major role in the process of establishing a global system of markets and production. Foreign direct investment (FDI) involves both capital flows and the means for the transfer of technologies, management skills and new methods of work organization from country to country. Inflows of foreign direct investment (FDI) were substantial in 2005. They rose by 29 per cent to reach US\$916 billion, having already increased by 27 per cent in 2004. It was attributed to some 77,000 MNEs and their 770,000 affiliates abroad (UNCTAD, 2006).

The MNEs operate a kind of “transmission”, transferring industrial relations practices from the country of origin to the host countries where their subsidiaries are based, while in some cases undermining or putting pressure on the specific national regulatory mechanisms – including trade union recognition and collective bargaining mechanisms.

The possibility of moving production and investments from country to country makes job protection and terms of employment rather difficult. The export of capital and technologies is often directed to countries where labour is cheap, trade unions are weak and governments are corrupt. Such practices can be viewed as “social dumping” – a problem that deserves special attention.

Social dumping and erosion of labour standards

Social dumping can be observed in many countries, mostly in developing and transition countries. In general terms, it is an expression of the urge of an enterprise to benefit from any differences in the economic situation and labour legislation and to extract economic profit or competitive advantage.

What are the key factors and differences on which social dumping practices are based?

- **The difference in the price of labour.** The gap here is very large indeed. The minimum monthly wage in 25 European Union (EU) Member States on 1 January 2007 ranged from 172 euros (Latvia) to 1,572 euros (Luxembourg) per month. In the two newest EU Member States – Bulgaria and Romania – it was 92 and 114 euros respectively (Regnard, 2007). Social dumping based on lower payment is the most widespread form in developing and transition countries.
- **The labour legislation.** The issue here is most often the practice of resorting to atypical contracts of employment: fixed-term, temporary, replacement, on probation, etc. Unregulated work hours and ease of evasion of regulations can serve as a basis for social dumping.
- **The role of social partners and their capacity for collective bargaining.** Social dumping can flourish in countries where the influence, collective bargaining power of trade unions and coverage of collective agreements are low.
- **The existence of economic sectors with a labour force surplus.** This is logically a prerequisite for the hiring of cheap skilled labour, especially in areas with a high unemployment level.
- **The significant role of the informal sector** in developing and transition countries creates room for social dumping both between countries and within the country itself.²

The most frequently used forms of social dumping involve contracts for outsourcing, with consequent export to third countries, contracts for subcontracting, sub-suppliers, and so on. Yet, as practice has shown in the past few years, a number of corporations resort to delocalization to other countries. In 2007 two large multinationals – American Bunge and Anglo-Dutch Unilever suddenly closed their production operations in Bulgaria and moved to Romania.

Social dumping has many faces but ultimately there is one common denominator – it is used as an instrument for the erosion of labour standards. Naturally, it should be noted that not every delocalization is related to the practice of social dumping, and clearly the distinctive line here is the level of investment and production expansion and the observation of national social and labour laws.

² According to some expert estimates, the size of the informal economy in Bulgaria is 30–35 per cent of GDP.

The use of cheap labour is particularly widespread in light industry. Bulgarian garment manufacture operates almost entirely as a subcontractor of western partners, but the net wage can be as low as US\$173 per month. All this is happening against the background of the growing share of garments in the export of industrial goods – up to 20 per cent of the country's total exports, meaning a balance of payments surplus in that subsector. Yet the hourly pay rate there is about 98 cents.³ As the campaign for the defence of fundamental labour rights in the workplace of the Confederation of Independent Trade Unions in Bulgaria shows in a number of garment companies owned by foreign investors relocated to Bulgaria from neighbouring countries, the widespread practice is to work 14–16 hours a day for minimum pay – in drastic violation of the social and labour laws.⁴

Multinational companies in Bulgaria: Changes in the labour market and industrial relations

Over the last decade, Bulgaria has been slowly but irreversibly entering the global economy, following the processes of European integration and the penetration of foreign capital, especially from MNEs. Globalization is creating challenges for the Bulgarian trade unions, but also new opportunities for the development of labour relations based on the promotion of fundamental human and labour rights and effective social dialogue with business.

At the beginning of the transition period, FDI was expected to be one of the core instruments for structural change in the economy and the technological renovation of enterprises. It was supposed to usher in a new organizational culture and new industrial relations practices in Bulgaria. It was expected that FDI would catalyze change and impact on employment and the quality of jobs as well as living standards. Today, 15 years after the changes began, assessments of social and economic development and industrial relations are contradictory. Bulgaria is not at the centre of strong foreign investment attention, unlike Hungary, the Czech Republic and Poland. Bulgaria attracts only 3.3 per cent of FDI in the EU accession countries. In 2002, Bulgaria attracted only US\$60 per capita, which is 20 times less than the amount for the Czech Republic, and 13 times less than for Estonia (CANSTAT, 2003). In the following years, the situation changed and the FDI flows to the countries of south-east Europe and the Commonwealth of Independent States (CIS) increased, reaching, in 2005, a relatively high level (US\$40 billion). Inflows were fairly concentrated: three countries – Ukraine,

³ National Statistical Institute, data for the first quarter of 2007.

⁴ Since 1998 the largest trade union organization in the country, the Confederation of Independent Trade Unions in Bulgaria, began a permanent campaign in support of the ILO Declaration on Fundamental Principles and Rights at work.

Romania and the Russian Federation – accounted for close to three-quarters of the total. Bulgaria received US\$2.2 billion, three times less than Romania (UNCTAD, 2006).

The impact of MNEs on the Bulgarian labour market is contradictory. The location of MNEs in the country creates employment, but in most cases restructuring after privatization by MNEs is accompanied by mass lay-offs, tension and conflict. At the same time, activities are being outsourced – mainly catering, transport, maintenance, and so on. This sometimes leads to the liquidation of these activities, and in other cases to the establishment of new companies, but with poorer employment conditions. While creating new jobs, the big trade chains (Metro, Billa, Ramstore, etc.) exercise competitive pressure on SMEs, leading to liquidations or job losses. Some of the enterprises bought by foreign investors have already been liquidated. Others are narrowing their investments. Taken together, all this has had a negative effect on the labour market, living standards and the economy in the regions concerned. Of course, there are also many MNEs that demonstrate strong economic interest in the country and continue to invest, some of them opening new subsidiaries and transferring good industrial relations practices.

In some cases, the labour legislation and core labour standards are neglected, undermining or putting under pressure the specific national regulating mechanisms, including trade union recognition and collective bargaining.

The survey reveals that on the whole MNEs have a positive impact on enterprise development in Bulgaria.⁵ They bring new technologies and management skills, renovate labour organization and develop the culture of work. However, the point at issue is this: what is their role in the transformation of the organizational culture of enterprises and industrial relations? Should we assume that the European MNEs transfer European social values and models of corporate management, or rather that labour relations are threatened by erosion as a result of social dumping being applied?

The main survey findings show:

- Most of the MNEs surveyed have serious investment programmes aimed at technological renewal and the modernization of production.
- Corporate social responsibility is part of the MNEs' strategies in Bulgaria. Considerable investments are being made in environmental protection and the social development of local communities – mainly in health care, education, sport and infrastructure.

⁵ It should be borne in mind that a simple extrapolation of the survey findings to the overall situation in the country is impossible – more than 150 MNE subsidiaries are operating in the country and we intentionally included in the survey only some of those with a trade union presence.

Trade union responses to globalization

- Human resource management practices are being implemented and new programmes for staff training and development are being developed. Some of these programmes pay special attention to inculcating company aims and values in the staff, instilling a new work culture and motivation with the aim of increasing labour productivity and quality.
- During employment restructuring, new practices previously unknown in the Bulgarian system are being used, such as early retirement and voluntary redundancies accompanied by major compensation (severance payment equal to 3 to 17 times the gross monthly wages). A comparatively small number of companies has offered retraining courses prior to the workers being laid off.
- The priority for MNE managements is to modernize work organization. Nearly 70 per cent of the subsidiaries surveyed have made changes to their work organization, with the aim of increasing work efficiency and improving production quality and labour productivity. Teamwork, with job rotation, has been introduced, leading to flexibility and the development of personnel skills. Quite a number of MNEs have implemented schemes to collect employee suggestions for innovating on quality and productivity, work organization, management, and so on.
- In the MNEs surveyed, the trade union presence is significant. The trade union density is 67.4 per cent as compared with an average of 20–25 per cent for the country as a whole. In some MNEs, union membership is as much as 90–98 per cent (the subsidiaries of the Solvay Group, Belgium; American Standard, USA; Carlsberg Breweries A/S, Denmark). Trade union membership is stable, with new members being recruited in some MNEs. But some trade union structures, mainly in catering, transport and the maintenance departments of companies, have been lost in the process of outsourcing and subcontracting.

As shown by practical experience and existing traditions, industrial relations and social dialogue in Bulgaria are better developed in existing enterprises privatized by foreign investors than in enterprises built through “greenfield” investments – the more so as trade unions are not allowed into many such enterprises due to anti-union attitudes by employers. Privatized enterprises usually undertake significant reorganizations, more often than not causing redundancies. The new employers are interested in negotiating these changes with the trade unions, thus providing a balance of interests between the workers and the company.

Analysis of past phases in the development of the Bulgarian subsidiaries of MNEs points to the gradual establishment of a pragmatic and realistic pattern of collective bargaining. In most instances of dialogue and cooperation,

the parties participating in the negotiating process seek a working formula through the application of modern practices typical of successful companies in pursuit of a common goal: higher productivity, stability and enterprise prosperity. As a rule, the labour and social terms agreed are better than those stipulated by law and significantly better than the average for the country.

The atmosphere during the process of bargaining and conclusion of collective agreements in most of the subsidiaries of the MNEs surveyed in Bulgaria is conducive to a new type of industrial relations, more adjusted to changes in economic life and society at a time of transition.

The findings of the survey show that the agreements reached in the area of remuneration are characterized by high wage levels (differentiated by job and staff categories) and as a rule these levels are much higher than both the average wage for the country and than for the corresponding sector. Higher compensation than that prescribed in the Bulgarian Labour Code and additional payments, as compared with the minimum standards required by the law, are agreed, i.e. for night shifts, hazardous working conditions and work on rest days and holidays.

The general impression is that in most cases the management and the trade union leaders categorize the terms agreed in the field of social policy as “good” and even “ideal” for Bulgarian conditions. In a number of cases, social benefits are reported to be “preserved” and even “further developed” after privatization. Thus, the collective agreements involving employees of MNEs are recognized as a tool for alleviating some negative consequences of the transition.

Despite these achievements, however, the practice shows that the wage levels in the Bulgarian subsidiaries are considerably lower than those in the subsidiaries in the developed countries; moreover, the largest number of rejected trade union and worker proposals and most frequent cases of refusal to bargain are registered in the social sphere, for example, concerning support for rest homes, preventive medicine facilities, sports facilities, swimming pools, etc. (on the pretext that they do not fit the company’s priorities). At the same time, however, they are seen to be among the priorities of the corporate policy of the same multinationals in other countries, Eastern European countries included.

The examples of the successfully developing corporations included in the survey show that, in the course of negotiations, the parties agree to paid annual leave that is two to ten days above the provisions stipulated by the law. The agreements reached in the area of introducing additional pension and health insurance funded by MNEs can also be regarded as a positive development (American Standard Inc., USA; Nestlé, Switzerland; and the Solvay Group, Belgium can be cited as good examples in this area).

Comparison of the major agreements reached with MNEs and those at the sectoral and subsectoral level shows the MNEs in a favourable light. The

better investment and technological climate and the established relations of bipartite cooperation in the subsidiaries of MNEs shape their behaviour – for example, they use sectoral collective agreements as a frame of reference and a principle rather than for the fixing of numerical values. In that section of the survey, the majority of union activists quote higher levels of negotiated minimum and start-up wages, higher compensation in case of employment contract termination, additional payments, and so on.

A good example of a balance between investment policy and social development in Sevlievo

People started talking about the “Bulgarian Hong Kong” in the middle of the 1990s, as the first results of a successful privatization project in Sevlievo (a small town in central northern Bulgaria with a population of 30,000 people) started to become apparent. Of major importance for the development of the town and the municipality was the “aggressive investment policy” of an American company planning to invest there. In 1992, a joint venture was created between Vidima (a company specialized in the production of bath and kitchen products, and fixtures and fittings for industry) and the American company, which then owned 51 per cent of the capital. Later on, following privatization in 1996 when Vidima was transformed into a joint stock company, the American corporation’s equity increased to 99.2 per cent.

What are the major characteristics of this “aggressive policy”?

- In 1998, the biggest enterprise within the American company was opened in Sevlievo – for bath and kitchen fixtures and fittings, with 1,300 employees. Three new enterprises were opened in 2001 and 2002. By the end of 2006 the total investment by the American company amounted to over US\$100 million, and also included the building of a four-star hotel and the construction of a gas main to the city. Over 2,100 jobs have been created.
- An extensive brand programme is under way, tailored to the needs of the clients. From the establishment of the joint venture up to the present day, production capacity has increased more than threefold. In terms of technical equipment, the technological level and working conditions, the Bulgarian enterprise does not differ from the company’s branches elsewhere.
- The investment programme envisages improvements in the management system, information services and the skills level of the staff. Investment in human capital is a major priority, which in turn guarantees the competitiveness of the company on the international market. Over 300 people receive on-the-job training each year.

The sponsorship and charity initiatives of the MNE have strongly boosted the social development of the city and the municipality. Not only activities receive funding. The social infrastructure is also being refurbished and new infrastructure is being built. There are many examples of good work carried out for the benefit of the citizens and the development of the city.

Although most indicative, the example of the American company is not an exception. A number of other foreign investors have launched projects in Sevlievo and this has greatly boosted the economic and social development of the region.

According to the United Nations Development Programme *Bulgaria Human Development Index* (UNDP, 2002), the economic profile of the municipality is exceptionally high. The gross value added per employee is above the average for the country and the municipality falls into the group of the best-developed economic regions in the country. The highly competitive environment generates on-going interest in modernization of the production units and further diversification of products and, very positively, even greater attention is paid to the introduction of up-to-date strategies for HRM and the development of the skills level of the staff.

Multinational enterprises and the challenges for the trade unions

Despite all the positive practices described above and the scope of the collective agreements in the MNEs, the survey shows that in some cases, the behaviour of certain foreign investors (large ones included) with respect to the liberalization of labour and social legislation creates difficulties for collective bargaining and gives rise to conflict situations.

The analysis of the findings from the interviews reveals that the most recurrent conflict issue in the process of collective bargaining is remuneration. In the key sectors and the large enterprises, it is the management who decides when, in what manner and by how much the remuneration and benefits will grow, and they do not allow the trade unions into consultations and negotiations on this matter. A serious problem is the lower remuneration level of the employees of MNEs in Bulgaria as compared with the branches of these companies in other countries. This is basically due to the low cost of labour and the lower living standards in the country.

Some of the new owners postpone or slow down the negotiations. Sometimes this results from a policy, spoken or unspoken, of ignoring the trade union organization in the enterprise, while in other instances it is determined by the stagnation of the market and the financial problems of the enterprise. In both cases, however, there is an attempt to cultivate conciliatory behaviour in some trade union leaders.

In some, albeit isolated, cases the trade union organizations have problems in getting all the necessary timely and comprehensive information from the employers, as needed for the preparation and signing of collective agreements. Normally the excuse is that this is a “company secret”.

The trade union organizations in the MNEs are still experiencing difficulties in coordinating the collective bargaining process with the appropriate European trade union organizations and international trade union structures. They do not fully avail themselves of the latter’s experience, standards, models and practices already in place, nor of the existing potential for positive influence and integration.

There are numerous examples of “greenfield” MNE investments where the employers obstruct the establishment and functioning of trade union organizations, or ban them overtly. This is a serious challenge to the national trade union organizations and a possible field for cooperation both with the trade unions in the subsidiaries in developed countries and with the GUFs.

The survey reveals that the collective bargaining practices and the collective agreements signed in the MNE branches strengthen the positive image of the trade unions. These have become important tools for the maintenance of trade union organization and a significant motivating factor for trade union membership. Furthermore, they are increasingly recognized as an instrument of CSR. This counteracts the attempts at uncontrolled liberalization of industrial relations, while promoting the sustainable development of the companies.

To face the challenges of globalization, the trade unions must reconsider their organizational structures and areas of action and internationalize them towards the promotion of the Decent Work Agenda. The extent to which unions succeed in changing the previously “standard” and tested patterns of trade union behaviour will determine how far they succeed in overcoming the dangers posed by globalization, namely deregulation and the disintegration of social protection and labour rights.

The growing influence of globalization and MNEs on the daily life of workers in Bulgaria and in south-east Europe increases the need for trade unions to strengthen their analytical capacity and cooperation with research institutions. In the countries of the region there is a lack of research on the problems of globalization and its impact on social, economic and trade union development during the transition process. It is necessary to undertake impact studies and research on industrial relations, trade union activities in MNEs, CSR, globalization, flexibilization, deregulation and liberalization, taking labour standards and ILO Conventions into account. The outcomes of research in these areas could become an instrument for strengthening the organizational structure, policy and bargaining power of trade unions in negotiations with MNEs and governments.

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