



## SWP 39/92 PERSONNEL MANAGEMENT IN EAST GERMANY

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## Abstract

German unification, the sudden joining of two highly contrasting economic and social systems, is a unique historical event. Two years since formal economic and social union between East and West Germany, and almost two years after full reunification, it has become clear that the initial optimism about the speed of adjustment and the costs of reunification were misplaced. Problems arise not only at the macro economic level through unemployment and restructuring; within companies change in management and working practices is also slower and more difficult than was initially hoped for.

This paper represents the first step of a research project on one particular aspect of that change: human resource management in what is now known as "the new Länder" of the united Germany. After giving an overview of current labour market developments in Eastern Germany we will then turn to the background of personnel management in the new Länder. We do this by reviewing the theory and practice of personnel management in the GDR, the old East German state and by outlining the major challenges facing personnel management now.

## Introduction

With the economic, social and monetary union between West Germany, the FGR and the East German GDR on July 1st 1990 and reunification on October 3rd, a new economic era began for Eastern Germany. The restructuring of the economy from an inefficient centrally planned system to a social market system had to be achieved in

<sup>\*</sup>This is a draft paper; please do not quote without prior discussion with the authors.

record time. For the large majority of East German companies this began a struggle for survival. Economic links with the former Eastern bloc, particularly the Soviet Union, had been central to the GDR economy and collapsed almost completely. In addition, Eastern Germany is facing problems resulting from low productivity, micro and macro level rationalisation and restructuring processes aimed at turning the Eastern German economy into an efficient Western style market economy in a very short time; and the added complication of a large scale privatisation programme. At the macro economic level restructuring entails the development of sectors such as construction and services, whilst production industries and agriculture will be comparatively reduced. (see fig 1).

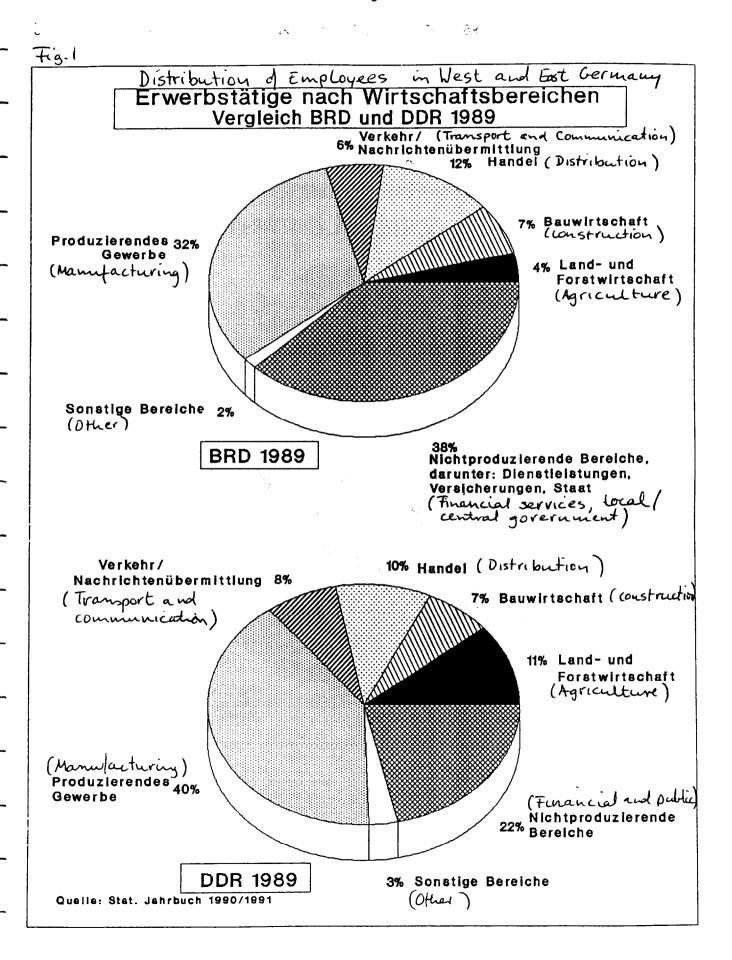
## The role of the Treuhand

In order to carry out the privatisation process the Treuhandanstalt was founded in June 1990.

"It is the task of the Treuhand, among others, by means of privatisation, restructuring and where required also closure of previously nationally owned enterprises and institutions to work for an industrial structure in the new federal Länder which will allow the free development of industry, SMEs, services and trades. The Treuhand therefore carries the responsibility in each individual case, where it has to come to a decision according to social, economic and financial criteria". (Treuhandinformation, 1991).

The basis of the work of the Treuhand is an 8-point programme for the recovery of Eastern Germany which was agreed between the Federal government, the minister presidents of the Federal Länder and the Treuhand. Central to this prgramme was an instruction to the Treuhand to give priority to privatisation over rationalisation and restructuring of companies in public ownership. Apart from reprivatisations (that is the return of property to previous owners) the Treuhand is trying to attract investors from all over the world, stressing the potential benefits of an Eastern German location and experience in Eastern trade for the rapidly growing East - West trade. Additional benefits for investors result from the highly educated workforce.

5000 of the 11,000 organisations entrusted to the Treuhand had been privatised by December 1991, accounting for 1 million jobs; (the total Eastern German workforce in 1989 was 8.547 million). Privatisations are notable for their regional concentration, with a little under a third of them in Saxonia; this is due to the traditional centralisation of East German industry in the Southern regions (see figure 2). Inspite of the Treuhand attempts to attract foreign investors— the Treuhand now has offices in New York and Tokio and part time representatives in Austria, Great Britain, France and Italy—only 248 of the 5000 privatised organisations were sold to owners



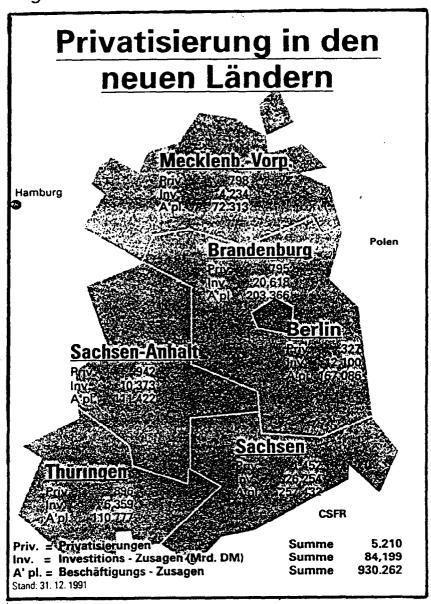


Abb. 1: Privatisierung in den neuen Ländern Quelle: Treuhand-Information 1992 b)

outside of Germany (see figure 3). These account for almost 10% of Treuhand jobs, thus are concentrated in larger organisations.

However, 6000 organisations still remain to be privatised and the pace is slowing down now that, what Professor Schneider, previous head of the German Expert Council on the economy, called the "Filetstücke" (the prime beef of Eastern German industry)(Der Spiegel, 19/1992 p154) are gone. The process of further privatisations is hampered, among other things, by unsolved property disputes and claims from previous owners, as well as economic difficulties. The Treuhand is developing new instruments such as management buy-outs and various ownership schemes in an attempt to maintain the pace of privatisation. Giving the slowing pace of privatisations, however, the emphasis of the Treuhand on privatisation (instead of longer term restructuring) has been increasingly questioned recently: there are increasing demands, particularly in the light of rapidly growing unemployment, for a more involved role of the Treuhand in the restructuring process - trying to ensure a more long term viable basis for organisations in the public sector and thus securing jobs. The Treuhand has also encountered some problems with the West German executive managers who were appointed in order to turn companies round and prepare them for the market economy and privatisation. Some of these did not prove up to the massive and unfamiliar task whereas others have been tainted with accusations of corruption and financial exploitation of their position of trust. In response the Treuhand is considering a more active role in some of their companies, but final policy decisions are still beleaguered by legal and political problems over such a change in direction (see Der Spiegel 7/1992 pp 118).

## Labour market policies in Eastern Germany after reunification

The labour market in Eastern Germany mirrors the precarious economic situation. Average official unemployment has now reached 17%. However, these official figures are depressed by various state programmes and initiatives which hide the true extent of unemployment; the 'true' level of unemployment is variously estimated as between 30% and 50% of the labour force. The labour market measures include:

- a) The granting of short-time payments in companies where lack of demand is expected to change in the future, theoretically for a limited period only but extended time and time again; its recipients include many people who effectively are working a 0-hour week.
- b) The availability of a transitional payment, bridging unemployment and retirement. 469.000 unemployed workers were in receipt of this benefit in March 1992. In order to qualify, workers must have been continuously employed for at least 90 days before their application, must live in Eastern Germany and must have completed their 55th

# Francs, Pfund und Dollars für die neuen Länder

Herkunftsland	Beschäftigungsz	usagen	Investitionszusagen	TDM	Privatisierungen
Frankreich	***	14.721	DM DM DM DM DM DM	2.279.000	
Schweiz	***	11.573	DM DM	470.980	4
Großbritannien	***	10.344	DM DM DM	1.286.600	
Niederlande	**	4.432	DM	253.450	~
USA	**	4.812	DM DM DM DM	1.521.543	11
Schweden	<b>†</b>	3.300	DM	85.300	
Österreich	**	5.176	DM DM	349.575	11
Dänemark	<b>†</b>	2.330	DM DM	357.900	
Italien	 **	4.054	DM DM DM	1.153.550	10
Belgien	<b>.</b>	2.808	DM	86.500	
sonstige	 ትትትትት	<b>2</b> 6.629	DM DM DM DM DM DM DM	2.583.356	75 CHA CHAN 25
Stand: 31.12.1991	Summe	91.975	Summe	10.500.000	Summe 24

Abb. 2: Ausländische Investoren in den neuen Ländern Quelle: Treuhand-Information 1992 a)

Fig 3. Foreign investors in the "new Lander"

year. Unemployment benefit is available for 32 months; the transitional payment can be obtained for a maximum of five years, at 65% of the last net earnings. People receiving this benefit are allowed to earn up to DM 30 (ca. £10) in addition. One might regard this benefit as a positive alternative to long term unemployment, which is often the reality for older employees. But not all employees want an end to their economic activity so early; their knowledge and experience are wasted and lost to the wider society. Even if the benefit is increased in line with average collectively agreed wage rises, there is nevertheless a cut in their income and living standard and this will have a knock-on effect on the level of their pension once they reach proper retirement.

Table 1: Unemployment in Eastern Germany					
Unemployment	approx. 1.35 mil	17%			
Early retirement	780.000				
Bridging payments	469.000				
Short-time workers	500,000				
Job creation placements (ABM)	ca 400.000				
Training schemes	500.000				

Source: Bundesanstalt für Arbeit, Beschäftigungsstatistik für Ostdeutschland

- c) There are several job creation schemes (Arbeitsbeschaffungsmaßnahmen, or ABMs) aimed at reducing social stress as a result of redundancies or at improving structural and economic conditions. Jobs organised through these mechanisms are financed by job centres for a limited duration; they are paid at comparable civil servant rates. Currently there is a multitude of ABM places in Eastern Germany, in the public sector, cultural or social institutions or private companies.
- d) Similar the number of people on re/ training schemes is constantly growing. The general economic shift towards a service economy also requires a changing structure of qualifications; much emphasis is placed on office and administrative jobs as well as caring professions. The increased use of modern communication and information technology and the changing legal basis in Eastern Germany create a substantial need for new qualifications. Particularly given the nature of the German system, the chances of a return to secure and paid employment increase with the level of qualifications individuals obtain. As the levels of qualifications among people in Eastern Germany was relatively high, it is possible to build the new qualification initiatives on solid foundations. Moreover, unemployment and the importance of

qualifications in obtaining work ensure that the training and retraining initiatives can count on the motivation of participants. It must not be forgotten that unemployment was virtually unknown in the GDR; its acceptance as a necessary evil of a market economy is only growing very slowly. People still have to learn how to deal and cope with unemployment and the resulting social insecurity.

e) Commuting across the old border further reduces unemployment in the regions close to Western Germany. This means that Eastern German enterprises lose highly qualified employees to West German enterprises. Average payments in Eastern Germany are 60% of Western rates (while price levels, apart from rents, have equalised) - 40% of income can be traded for a longer journey to work. In addition fringe benefits and working conditions are often better in the West. The numbers of commuters (now estimated at about 400.000), as well as the length of journeys, are constantly growing.

## Gender and unemployment

The overall unemployment figures also hide a growing gap between male and female rates of unemployment. Women represented slightly under 50% of the GDR workforce, yet there are already 60% of all the unemployed in the new Länder. In the GDR there was an ideological commitment to women's full economic participation, and this was backed up by legal rights and in-company initiatives. This political commitment to equality no longer exists and politicians quite openly speak of the need for participation rates of women in the East to fall. The gap between male and female rates of unemployment is growing; in September 1991 the official rate of unemployment was 9.1% for men and 14.3% for women (Jasper 1992 p15). Given that women were overproportionately concentrated in administrative employment and in public administration (there is not much difference to the West here), where overstaffing was perhaps more marked than in production industries, such differential rates might be expected. However, women also find it harder to find placements on job creation schemes; between September 1990 and September 1991 women were only 39.7% of those who were placed into these schemes (Jaspers 1992 p17). Other changes are more subtle. Women are 55% of those who have enter new post qualification training initiatives; but their share of "company-level" training places is much lower than men's, whilst women predominate in introductory courses which do not lead to qualifications (Jaspers 1992 p20). Thus while these trends are still at the early stages it seems unlikely that women will be able to maintain the degree of economic equality they enjoyed in the GDR (and which, according to several opinion polls, they are reluctant to relinquish).

Unemployment in Eastern Germany now is high compared to other Western as well as Eastern economies. The transition from a society where the right, and duty, to paid work were paramount and unemployment unknown both as a personal risk and as a disciplining tool available to management, to one where everyone is directly under threat, is very traumatic. Compared to the other Eastern economies who experience unemployment for the first time, and one might even add some Scandinavian countries here who were used to rates of unemployment of below 2% until recently, the 'psychological' situation in Eastern Germany is aggravated by reunification. Unemployment benefits are relatively generous (at least compared to Great Britain) and moreover are not threatened by high inflation rates. Undoubtedly, too, the old premise from development economics holds - that the only fate worse than Western exploitation is not to be exploited at all. But East Germans have West Germany, not the rest of Europe, in front of them, and resentment and resignation are growing rapidly on both sides.

## Personnel management in Eastern Germany

Unemployment to some extent is the most drastic evidence of the traumatic changes that are taking place, but other, less explicit, changes are also taking place. Since reunification the whole area of management is required to change. Often Western managers have been entrusted to restructure and rationalise management structures in order to prepare organisations for Western market economies and Western management styles. Two years after reunification here, too, there is growing recognition that it is harder to change long entrenched working and management practices than was initially envisaged and hoped for. Personnel management played an important role in maintaining previous working and management practices, and has an even more important role now in times of change.

The West German industrial relation system provides an extensive sets of rules and guidelines for personnel managers, and with it a system that has been effective but not very used to sudden and drastic change. In the time immediately after reunification there was a tendency in Western Germany to treat the East as a carte blanche where Western structures and institutions could simply be introduced and trusted to perform as in the West. This approach underestimated the importance of the ingredients which made the West German system work: a clear set of generally accepted rules with its actors- management, trade unions, workforce representatives and employees- educated and experienced enough to operate them, in a situation of long term stability. These conditions do not yet exist in East Germany. The approach also underestimated the length of time needed to change from one system to another. The old East German system could be characterised as similarly highly rule oriented and structured, albeit with much smaller margins for independence and

decentralisation. An understanding of GDR theory and practice of personnel management will help to understand current attitudes and will identify the problems that arise from past practices for the current transitional period, as well as identifying areas where new practices can build on the old GDR ones.

## Personnel management in the GDR

In the GDR there was no unitary discipline of personnel management, either in teaching or in research. The implementation of personnel management in employing organisations was decentralised and fragmented. Re-unification induced major changes in this area, as it did in business economics as a whole.

Before 1990 aspects of personnel management were included in several academic disciplines. These included: socialist business economics; socialist theory of leadership and management; labour sciences, including the economics of labour; labour and engineering sciences; and labour engineering psychologies; labour sociology and labour pedagogy.

Within employing organisations there was a four-fold policy division for personnel management (see Lang and Lippert 1986)

## a) Cadre (ie senior management) and education:

## Responsible for:

- Planning and analysis of trends in the occupational and qualification structure
- Planning, coordination and securing of personnel development, of the government's women and youth policies;
- cadres development; trainee cadres; and reserve cadres or cadres working abroad
- training and development, including welfare of foreign workers

## b) Economics:

#### Responsible for:

- Planning and implementation of competition programmes; performance comparisons; experience exchange
- planning and analysis of the material and 'social' motivation (ie wages, bonus, etc)
- Planning, analysis and coordination of working time management, including shift working, illness, absenteeism, etc.

## c) Technology

- Planning, analysis, coordination and securing of work with innovators, quality circles ('Rationalisierungskollektive' and the administration of suggestion schemes
- Planning, analysis and control of environmental protection
- -Planning, analysis and control of work organisation

- d) Division welfare and social matters
- Planning, analysis and formation of the development of living and working conditions
- planning and control of the use of the culture and social fund
- Planning, distribution and ensuring of workers' care
- Implementation of care for particular groups of employees, including childcare
- planning, coordination and organisation of cultural activities.

Personnel management decisions were largely predetermined, or at least narrowly circumscribed by centralised government policies. This was particularly so in the following areas:

- Pay levels
- Increases in labour productivity
- Scientific organisation of work
- Innovation/ suggestion schemes
- Level of employment
- Working and living conditions

(see also Lehrbuch Arbeitsökonomie, pp539, Autorenkollektiv; 1982)

These areas were covered by various planning instruments, and targets contained in the plans were binding. The targets were derived from an analysis of each individual company; however they strongly restricted flexibility in personnel management. The planning process was not only based on economic or business criteria but had strong political components. In the selection and assessment of the management group, the cadres, in particular, given their key political as well as economic functions, this resulted in political intervention in personnel management. There was, for example, an emphasis on political criteria in personnel development for senior management and training and development programmes for middle managers and employees in general.

Planning guidelines on the one hand, and fragmentation of responsibilities on the other, impeded the personnel function from fulfilling a constructive role within organisations. The economic changes which began in July 1990 in East Germany have a very direct effect on personnel management. There has been little time in which to achieve an adjustment to West German practices, yet a rapid assimilation to Western practices and theories of personnel management is vital to the survival of companies. The need to adjust to the new system has been responded to in training and development programmes; there have been new post graduate courses, short courses for practitioners, and, through the German Society for Personnel Management (the DGFP), experience exchange meetings between East and West German practitioners have been organised. Several joint research projects have been

initiated, encouraging, among other things, debate - because as we argued above, a simple take-over of West German theories and practices, without reference to the realities and concepts of Eastern Germany, is neither appropriate nor desirable.

East German Personnel Management and the challenge of reunification

The following section illustrates in greater detail the background to personnel management in the East and the problems which arise from the shift from a planned to a market economy, in theory and practice. This section does not pretend to provide a complete East West comparison; it concentrates on some key areas of difficulty:

- i) Manpower planning
- ii)Increase and reductions in employment, including recruitment and redundancies
- iii) Training and development (management development and career planning)
- iv) Leadership
- v) Labour utilisation, job evaluation and assessment, organisation of work
- vi) Remuneration
- vii) Industrial relations, the role of trade unions and employment law
- viii) and finally some relevant other themes, including working time management and problems of women's employment

## i) Manpower planning

Manpower planning only played a minor part in the GDR in theory and in practice. Because of the high level of state regulation enterprises had no scope for independent activities (apart from single projects, such as automatisation) in this field. Theoretically manpower planning and work study tools were used at one point to establish norms for staffing levels and operation both in production and administrative activities. However, the "status quo", once established, was virtually set in stone, immovable by new research or developments. Only for future production projects was there so-called prospective manpower planning (which included cadre development).

Manpower planning has become increasingly important. The concrete quantitative and qualitative employment needs of an enterprise are key to the corporate planning of the business. In order to fulfil cost and accountancy pressures much improvisation is currently required of personnel managers in this field, which is gaining a high profile in Eastern German companies.

## ii) Changes in the workforce size

The constitution of the GDR guarantied the right to paid work to each citizen (and at the same time imposed a moral duty to work).

Because labour markets did not, in practice, exist in the GDR, companies had to use other mechanisms to guarantee sufficient labour. The transition from school, apprenticeship or university into employment was relatively fluid and free from major difficulties (although, of course, many people were unable to undertake the profession of their own choice). The employment plan left little room for special recruitment efforts: recruitment exercises were difficult. Even newspaper advertisements needed permission from the relevant industrial combine or ministry. Some companies unofficially resorted to the use of factory gate announcements of vacancies in an effort not overcome shortages but this of course only had limited application to wider recruitment problems. Since the beginning of the 1980s regional job centres existed but they were fairly insignificant. However, this does not imply that there was no turnover of staff within organisations. Employees might desire a change of employment in order to move geographically, have a more challenging job or improve themselves financially. The ability to move depended strongly on personal initiative and on informal arrangements and negotiations.

Officially, recruitment efforts were restricted to those industries which were seen as important and were scheduled to achieve high growth rates (eg micro electronics at the beginning of the 1980s). In sectors which were deemed to have less or declining significance there effectively was a ban on recruitment. In practice, therefore, the movement of labour was heavily restricted. Labour shortages as such did not exist, apart from highly skilled specialist managers in certain areas. However, given the inability of employers to recruit from the outside, or to get rid of surplus or unproductive staff, enterprises had to look to their existing staff and ensure that their were used as efficiently as possible, and were trained in order to fulfil new requirements.

In most companies selection of new employees took place only on the basis of written applications. Interviews, cvs and, in the case of managers, referals to their personal development file from previous employers, were also sometimes used. References or aptitude tests were not common. Decisions about the appointment of candidates for middle or higher management were made on a political bases.

Once an appointment was agreed by both sides, the form of the contract of employment was stipulated in GDR labour law. The contract was only valid if it contained three elements: starting date; job description; location of work. Anything

further could be agreed voluntarily. Permanent employment was established from the first day of work, there was no provision for a probationary period.

Thus it is clear that recruitment in GDR was a minor issue for personnel specialists. After reunification this area was affected by major changes. Many employees had never previously experienced Western type recruitment processes and the implied need to present and sell oneself. With the event of unemployment came the new problem of job search for employees- and that of selection for employers. This problem has now been picked up theoretically and numerous publications have been prepared to fill the knowledge and experience gap. Practically, many companies had to prepare training courses for their own staff.

## Evaluation and appraisals

Appraisal similarly has increased in importance since reunification. Both East and West Germany had set phrases and forms for these processes, often open to different interpretations and of course influenced by different political circumstances. This now creates a problem in the longer term assessment of the development and potential of Eastern German employees who cannot call on past appraisal as evidence for their development and application. Once the Eastern and Western employment law has been unified there will be adjustment to Western norms.

## Redundancies

Finally, in this section, there is the issue of redundancies. Because of the high level of labour use in East Germany there were many demands for rationalisation. Several initiatives, such as the Schwedter Initiative (after a company in Schwedt who pioneered the approach) were tried. Under this initiative employees whose jobs had been eliminated through rationalisation were redeployed in the same company. However many of the presumed gains were due to manipulation of figures and creative accounting. There was a recognition of the benefits of rationalisation and productivity increases; however because redundancies were not a possibility no real savings could be made. Redundancies as such did not figure in East German personnel management, either in theory or practice.

This lack of experience creates substantial problems in the current phase of restructuring in which employment termination is such a substantial feature. Employee welfare plans ('Sozialpläne') (legally required in West German companies above a certain size) which provide social and financial support for employees in redundancy situations, are unknown instruments which now have to be introduced with West German help.

## iii) Training and development

The level of training and development in the GDR was high. As in West Germany there was strong emphasis on vocational qualifications and over 90% of employees had at least completed a full apprenticeship. Post qualification training was similarly emphasised. Each larger enterprise had its own training institute which offered training for its employees. Efforts were made to open the facilities to a wide circle of employees, particularly to ensure that women with childcare responsibilities were not excluded. The facilities also included paid educational leave, contribution to the costs of teaching materials, etc.

Criticism in the field of training and development centres around the fact that the training centres had to work to a mostly centralised curriculum, allowing little flexible response to local circumstances, and that this curriculum also contained a high element of abstract and politically oriented material. The curriculum allowed no place for "on the job training", conflict management orthe theory and practice of communication, areas where there was a corresponding lack of knowledge and research. However, overall training and development is a field where the positive experiences in East Germany could be combined with those of the West.

A similar argument - of a high level of systematic development, albeit with heavy ideological and political overtones- applies to the development of trainee managers or cadres. Each GDR enterprise had succession and career plans for individual cadres. However, political and ideological reasons often became overriding when decisions about succession were made. General management and business administration were neglected as elements in management/ cadre education (not to mention human resource management!).

## iv) Leadership and management theories

This is an area which was virtually unknown in the GDR. There was no research or theoretical development in this area at the academic level; possibly the science of socialist leadership might have been able to contribute to this field, but any developments in this direction were blocked by the overriding ideological principle of "the all-round developed personality" under socialism, which did not allow the development of separate models of leadership.

Münch characterises the job content of managers in GDR enterprises as " a combination of technocratic and book keeping tasks"; management (including personnel management) only covered operational, organisational and control functions and moreover often included only decisions about materials (Münch 1990). There is

consequently a need for focused and speedy action in this field, through the development of training programmes for managers and through the cooperation of researchers in East and West in the development and implementation of theories of motivation and personnel management in general.

## v) Labour utilisation, job evaluation and performance appraisal

In the area of job design or work structuring there was a high level of theoretical as well as practical knowledge and experience. (The leading research institute in this field was the Technical University of Dresden.) Research in this area had very similar concerns- and often came to similar conclusions- as in the West, with key issues being job enlargement or enrichment, job rotation, group or team working, the construction of complete job tasks, etc. Theoretical work in this area was supported by practical research projects, such as on fully automated production processes and the role of workers within these technologies. The lessons learned from these projects are often still valid and should be part of the foundation of future joint East/ West research in this area.

The use of job evaluations was also widely discussed in the GDR and paralleled West German debates, at least until the beginning of the 1980s. Up to that time there was an equal use of analytical and job-ranking methods. However, at the beginning of the 1980s a new analytical method was introduced by decree in the GDR, with a uniform and generally applicable evaluation system, split only by the inclusion of two different categories for production jobs and administrative jobs.

This decree suffocated any further scientific debate. All further efforts in this area were restricted to marginal improvements in the centrally decreed system; alternative systems could not be discussed. The new job evaluation scheme was criticised as hard to use and not objective, and as unable to capture the flexibility and dynamism of organisations subject not constant change (Bartölke and Ritter, 1990). There are of course advantages in the use of analytical schemes compared to whole-job or ranking comparisons in assessing the size, and therefore the grading, of tasks, and in the job design of demanding tasks and the identification of appropriate training and development of employees. Certainly the system of job classification and evaluation is not able to comply fully with the demands of a market economy; however it provide a useful staring point. Since reunification, debates about job evaluation have started afresh. The new autonomy of collective bargaining is a further factor which induces changes in job evaluation.

## Work study

Here too we find a relative similarity/ correspondance of analytical and whole-job comparisons in job evaluation between the old premises of the GDR "science of labour" and the West German REFA association (the most important institute for work study there). The setting of production norms was a particularly difficult topic for the socialist state (given that this was, after all, what started the 1953 uprising). In theory, as well as implementation to some extent, there was quite extensive reliance on bonus and incentives and in this respect theoretical debates on the development of wage systems and grading structures were often similar in East and West; GDR literature however completely ignored a wider discussion of motivational theories which figure quite highly in Western literature in this field. In the socialist science of work the guiding theme was: "From each according to his abilities, to each according to his performance".

## vi) Remuneration policies

Employing organisations in the GDR had little or no leeway in the development of remuneration policies. Wage levels were set centrally, in line with macro economic and political criteria. Even if there formally was collective bargaining through the central trade union federation (the FGDB) the outcome always reflected decisions by the party and the government. There were also clear restrictions and controls on the implementation of the central wage policy within companies - the size of wage funds was binding and achieved surplusses did not benefit the individual enterprise but had to be passed back to the centre.

As a result of the often ideologically determined criteria for wage setting, enterprises were faced with several inconsistencies. For example higher wage rates were set for certain "key industries" (heavy industry and mining for example), with no relation to productivity or labour needs in the economy overall. Within enterprises, wage and tax relativities were heavily tilted towards manual workers; as a result their take-home pay often exceeded that of a white collar worker. This system further eroded differentials between employees and managerial or supervisory staff, with resulting problems in encouraging people to take up those positions or study for higher academic qualifications.

Low productivity and increasing realisation of the problems caused by this system in the early 1980s led to some reforms, mainly through the introduction of "productivity wages" ('Productivlöhne'). For white collar workers this introduced a performance - related pay element on the basis of a performance appraisal (something that is not possible in Western German collective agreements for these groups). For industrial

workers there was an increased reference to production norms as well as to responsibility for the production process overall. There are several noteworthy studies in this field which are comparable to Western theories of incentive systems (Stimulierungssysteme).

Arguably the West German system with its high level of centralisation, particularly regarding manual and administrative grades, is less far removed from the GDR system than most other market economies and its introduction to Eastern Germany should not be too problematic. The experience with, and acceptance of, performance related pay should also help in the transition to the new system. However, even though the West German system appears highly centralised enterprise level bargaining is very important within it. For many companies centrally agreed rates are just a wage floor which is increased in local negotiations. Framework agreements set out basic terms and conditions, but again the precise implementation of many of these conditions has to be negotiated locally. The efficiency of the system depends on the skills and experience of the social partners, both of these currently absent in the East.

Regarding the level of wage rates, as mentioned earlier set on average at 60% of Western German rates, these put many Eastern German companies in a double bind. The rates are not high enough to keep skiiled labour; on the other hand they are often higher that comparable productivity and thus lower the competitive chances of Eastern German products.

## vii) Industrial relations: the role of trade unions

In the GDR there was no formal recognition of employees and employers as separate interest groups. Since, in the socialist state the means of production were owned by "the people", such a division was not seen to exist in practice, nor in theory or research.

Trade unions had a very different role from those generally seen in the West; functionally they were more akin to staff associations or company unions; however they had a stronger ideological and policing role. Because the role of the unions could not include a defence of workers' interests against the owners of the business, there was, in theory at least, no conflict of interest between employees and management, nor was there scope for strikes or industrial action. Membership in the FDGB (the Free German Trade Union Federation) was very high. Trade unions had more of a social function in companies, responsible for example for company holidays, cultural activities, etc. The employment law of the GDR further regulated rights regarding co-determination, which set out areas where trade unions agreement and control was required. These included:

- Control of health and safety at work
- Controlling the proper implementation and upholding of employment law
- Participation in decisions about recruitment and selection, redundancies and dismissal
- legal representation in employment disputes

The new political and economic environment has changed this situation completely. Trade union density in Eastern Germany continues to be very high. The prospect of redundancies particularly is encouraging many employees to join or remain in trade unions. However, the position of trade unions has changed fundamentally now that the role and remit of trade unions is determined by West German legislation. Trade unions can now take up their proper role as a mediator in the relationship between employees and employers and a representative of employee interests. This role is especially important in the current period of restructuring.

The transition to a Western style trade union movement, however, brings problems. The GDR trade unions did not play an active role in the peaceful revolution that brought down the old regime, in contrast to some other Eastern European countries, and did not build a credibility as a democratic opposition. The credibility of West German trade unions among the democratic opposition in the GDR however also suffered during the period of "Ostpolitik": of encouraging changes from within and looking for common ground with the official institutions in the GDR, rather than rocking the boat and openly supporting the opposition (see Seidenbeck 1991 p5).

Apart from political credibility many of the East German trade union officials also lack the practical experience required to implement the West German industrial relations system. The West German trade union federation (DGB) consists of strong independent trade unions and is operated in a rather decentralised manner (even though the individual trade unions are centralised); trade union membership is voluntary (reflected in overall membership levels of about 30% of the workforce). The West German system has now been introduced in all of Germany. While formally the East German FDGB had the same structure, the individual unions within the FDGB had no real independance and trade unions have little experience in recruiting and attracting members, given that membership was almost compulsory. There has been no significant dromp in membership after reunification, however.

As in other spheres of the economy there is very little time for transition. Redundancies and economic restructuring result in very high demands on trade unions to defend their members; these demands moreover were 'inflated' by high expectation of the new system, unrealistically high, as it turns out. The DGB found itself in a conundrum of how to resond to those needs as East German officials

either did not have the trust of East German trade union members or lacked the experience, particularly the legal knowledge, to operate within the new West German system. On the other hand the DGB also realised that officials imported from the West, too, might not have the confidence of their members either. In the end the DGB decided that in the transitional period it would have to use people from the West. These quickly found that legal knowledge and trade union experience gained in West Germany were not as universal as they assumed: "The trade union officials that had been sent from the West, too, found that they were unable to get to work straight away. They found themselves in a rather strange environment, with an unfamiliar mentality and an infrastructure which neither resembled what they were used to nor what was required." (Seideneck 1991 p9)

## viii) Further problem areas

## Working time management

Amongst other areas of immediate concern is that of working time management. At a macro level there is the problem of adjusting eastern working hours to those in the West. The official working week in the GDR was 43.75 hours; in western Germany most collective agreements now have a 38 or 39 hour week. More problematic is the general lack of flexibility in working time management in the GDR. In some areas, such as shift working, there was much research and development, with general agreement between East and West. Overall, however, this area, too, was heavily controlled by state regulations. Flexi-time models, job sharing or part-time work were the subject of much debate but were not implemented in practice, at least officially.

It now appears that many more women were working part time than was officially acknowledged. Reduced hours, from the official working week of 43.75 hours to 40 hours per week, were available to women with children under certain circumstances. However, many women worked less hours than that. According to a recent survey a quarter of women worked part time hours, 60% of these between 25 and 35 hours per week (Ochs 1992 p.12). It should be possible to build on these experiences but given the high level of unemployment and the increasingly negative attitute to women's paid employment there seems to be little willingness currently to turn these inofficial arrangements into positive models.

#### Women's employment

This is a problem which runs through all the topics already discussed. Women's participation rates in East Germany were higher than 90%, much higher than those in

West Germany (where women's participation is 55%). These high participation rates were facilitated by women's equality plans within companies, childcare facilities at work, qualification and educational initiatives in typical 'male' jobs, and generally a legal and social commitment to allow women to combine domestic responsibilities with paid work. The cost of these equality initiatives ( such as the right to paid dependency leave when children were ill) were often quite considerable for enterprises. But as a result equality for women was realised to a much higher degree in East than in West Germany.

Since reunification several legal rights for women with family responsibilities (some of which formally also applied to men but were rarely taken up by them) have been abolished: the right of women to work a shorter week or to take one day per month as a paid 'household day' has been abolished; maternity pay provisions have been lowered to the West German level; childcare provisions, which in 1988 had covered 81% of children under the age of three, are being cut back (Döllinger 1991). Women find it increasingly hard to enforce those rights that they still have. There is a tendency among employers to see women with children as potentially more expensive. The current fall in birth rates is another indication that for many women there is now a decision to be made between building a family and following a profession.

#### Conclusion

The initial vision of a fast and painless transition from a socialist centrally planned to a social market economy has proved to be overly optimistic. Instead there is a growing realisation that changes will take time, and that successful change has to acknowledge and build on East German experience rather than simply pushing it aside. In the field of personnel management GDR practices paradoxically suffered both from fragmentation and centralisation, without the support of a coherent theoretical framework which could have supported a strong role for personnel management in practice. However, in several areas, notably training and development, job design and organisation and equality of opportunity, there exists considerable experience in Eastern Germany - experience which might also be of use to Western German companies and which might provide the basis for a future more equal collaboration between Eastern and Western managers in this field.

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