This article explores developments in the field of industrial relations in Czechoslovakia since the fall of the Communist regime there. As such, it is one of the first outlines of the real, operational, problems that are involved in the move from a highly centralised labour force allocation system where all employment was in the state sector, to the establishment of a more liberal labour market operating in a mixed economy.

A general outline of the situation in Czechoslovakia up to and including early 1991 is followed by a brief outline of the trade union position since the revolution. There is then an analysis of the role of the civil service in carrying out policy in labour relations, and of the employment position of the civil service itself. Finally the article provides an examination of the personnel function within enterprises.

The article is based on a January 1991 International Labour Organisation mission to assist the Czechoslovak government to establish market economy style human resource management.

The results of the 'velvet revolution'

Czechoslovakia is a country about the size of Greece with a population of 15.6 million. The population is roughly 2:1 Czechoslovakian:Slovak. The "velvet revolution", which overthrew the previously all-powerful Communist Party in November 1989, took place in a country with a long and spectacular history and the advantages of a tradition of democracy. It is on most measures the richest of the Eastern European countries, now East Germany has been absorbed into the Federal Republic, with the lowest foreign debt, a well educated middle class and a well trained workforce. Its new State President, the playwright Vaclav Havel, presents a very positive face to the rest of the world. With the beauty of the many fine old buildings in its cities and the lovely countryside, Czechoslovakia is seen by many foreign investors and political scientists as the most attractive of the Eastern European states.

In the dramatic days of the late 1980s the Czechoslovakian regime led by Gustav Husak and, at the end, by Milos Jakes, was one of the last to stand out against the tide of anti-Communism. The dramatic disintegration of the regime and the overwhelming support achieved by the two umbrella organisations Civic Forum (Czech) and Public Against Violence (Slovak) in the subsequent elections in June 1990, left the Government in an electorally strong position. It was, however, facing
considerable economic problems, and these umbrella parties are in the process of splitting into those who wish to push the economic reforms into ever greater liberalism and those who fear that such moves are leading towards a total abdication of Government responsibility.

The Communist Party of Czechoslovakia remains a legal, and an important, political force in the country. It has made some changes: the headquarters of the Communist Party of Slovenia has, rather entrepreneurially, begun to sell lunches - soup and meatballs - to outside individuals. In practice though many of its members remain suspicious of the new policies and despite its loss of power it is still a potential force in the country: in the June 1990 elections the Communist Party received 13% of the vote.

The report that the Government published in May 1990 (1) was scathing: it described Czechoslovakia as "too demanding on raw materials, energy and labour: slow in technical development; distorted by unrealistic price structures". The report also pointed to the massive pollution problem that Czechoslovakia experiences, and to the fact that the country was "lacking independent management and motivation of employees".

The working population is nearly 8 million. Most of the production in the country takes place in some 690 large state-owned enterprises, which employ the bulk of the country's 2.7 million industrial workers. There are real problems here. Equipment is old - on average twice as old as machinery in Western Europe: production in Czechoslovakia requires nearly three times as much raw material, energy and labour as equivalent production in Western Europe. And since the revolution the value of industrial production has dropped sharply.

The commercial and service sectors are little better. Most is still state-owned, even the smallest shops. Service standards are slow and inefficient, often absent altogether. The government is now in the midst of a unique programme of nationalisation. Since January 1991 the papers have been full of "small ads" announcing the auctioning off of small businesses - shops, factories and trading companies - either with or without their premises. The auctions are well-attended, large rooms full of bidders with prices sometimes going up to 30 times the original bid. The prices are, by Western standards, remarkably low - but few people in Czechoslovakia can afford them. The process is heavily criticised inside the country.
It is argued that the only people who can afford to buy are either those who made money, corruptly, from the old Communist regime; those who have made money wheeling and dealing in currency since the revolution; or those acting as front-men for wealthy foreign investors. The government replies that, although it has looked at various forms of ‘voucher’ sales, there is little real choice if it wishes to privatise the vast state holdings. The selling of the major enterprises over the next few years will be a major test.

For the first time in half a century Czechoslovakia is facing unemployment. It is expected to reach 10% by the beginning of 1991, and more after that. One million unemployed means 30 billion Kcs (Czechoslovak Crowns) social security requirement: the current budget is 8 billion Kcs. Whole industries face decimation and there will inevitably have to be considerable restructuring. This is a prospect faced with considerable concern, even fear, in the country. The town of Banska Stiavnica, for example, is seeing its mines being closed. The other major employer is a textile factory employing 1300 (1000 of them women). Since 50% of sales were to the Soviet Union and problems there have closed that market, it is likely that the factory too will close.

The textile industry is instructive in other ways. Most of the 100,000 employees in the industry are women. It has, over the last ten years, used a significant proportion of immigrant female labour under an agreement signed by the Communist government with Vietnam. These will be sent home. The disproportionate impact of unemployment on women is not restricted to this industry: it will affect the whole economy. This is because women, who make up almost half of the Czechoslovakian workforce, are more commonly found in the ‘administrative overhead’ jobs that are seen as the focus of the first attack on inefficiency and surplus employment. In January 1991 employees in these functions were facing the possibility of redundancy - or the offer of "unpaid vacations".

The ending of State support of full employment and the acknowledged need for restructuring comes at a time when the Eastern European markets for Czechoslovakian goods are collapsing; and Western European markets are becoming increasingly difficult to access. The Czechoslovaks fear the EC developing into a Fortress Europe as least as much as the Americans do.
Social and employment conditions
In some ways Czechoslovakian employees are well looked after. The minimum wage is comparatively generous; employees have at least three weeks paid leave - up to four weeks for older workers; education and all health services are free; pensions (retirement at 60 for men and 55 for women) are set at the level of the minimum wage. In 1990 the law on parental leave was amended so that either father or mother can take up to six months leave at 90% of salary. Most of the major state or cooperative owned enterprises run heavily subsidised recreation centres and holiday apartments. Apprenticeship programmes are widespread.

Against this has to be set the liberalisation of prices, which will inevitably lead to a significant decline in real incomes, and working conditions which vary considerably, but which are often far from ideal. A factory in Bratislava for example had average noise levels over 85 Db - but no enforcement of rules on ear plugs or ear defenders; considerable dust pollution - but with masks worn only by those nearest the machines; high humidity; a widespread ignoring of rules on hairnets and very casual handling of dangerous chemicals.

Employees who do lose their jobs are entitled to six months notice on full salary. If they have been offered another job they get a further three months at full salary and three months more at 80% of their salary, whilst retraining. If there is no other job, they get unemployment benefits of 60% of their salary for a further six months. After that they receive the equivalent of the minimum wage.

The Unions

The developments in Czechoslovakian trade unions came after the revolution in 1989 rather than before it. This was not a revolution led by 'Solidarity' style independent unions; and the changes to the union structures have been surprisingly few. There have, of course, been major changes in outlook and function. Across the country nearly all the leading trade union officials have been removed, though many junior officials remain (perhaps with a new outlook) embedded in the organisation.

The Czechoslovakian Trade Union Confederation of the 1980s was a typical Eastern bloc institution. All workers were represented by a sectoral organisation under the umbrella of the Confederation. Officials were invariably Communist Party members and followed national policies. The trade unions adopted a wide role, including
many welfare elements that would be seen as well beyond their normal scope in most Western countries.

The impact of the revolution has been limited at the organisational level - the same structures are substantially in place. The unions use the same buildings and the employers continued to pass on "check-off" subscriptions to the appropriate sectoral union. There has been considerable debate about the proportion of the check-off payment remitted to the union organisation outside the enterprise - to the local or national headquarters. Some unions have retained this at the previous 30% level. The Textile, Clothing and Leather industry union has managed this for example. Although membership fell sharply from 100,000 to 80,000 immediately after the revolution - and looks set to drop by another 30,000 with projected redundancies in the sector - this means that the headquarters structures are still in place and that they have been able to invite help from foreign unionists (from Germany, France and the United States) to help them create the new union.

In other sectors, suspicious of the old union structures, 90% of the subscriptions are being held at enterprise level, giving the national officials serious problems.

The scope of trade union interests has been narrowed to a more explicit focus on pay and conditions. The unions are beginning to exhibit an independence from both enterprise managements and government. Indeed a government proposal for more radical reforms of the union movement was defeated in an argument which included the threat of a general strike.

At enterprise level the union role now varies considerably. In some organisations it has almost collapsed, whilst in others it remains a powerful influence. The majority of course lies between the extremes. Overall, though, the Czechoslovakian trade union movement represents one of the more limited, and most controlled, changes in structure. There has been no development of 'Solidarity-style' independent unions: no competing unions within the enterprises: no splitting or disintegration of the national confederation. Rather, the formal structures have remained in place but changed, nominally at least, their objectives and function. At the national level the change is clearly real, with the unions negotiating hard over, for instance, the introduction of the new National Agreement. At local level the picture is more mixed.
Consultation and involvement procedures at the enterprise level were amended by the Communist government in 1988 just before it fell. They tried to introduce in some enterprises a form of worker self-management in which assemblies of all workers, or representatives, elected the enterprise directors and a 'council of work'. An investigation in 1990 (2) found that, almost invariably, the previous management team was 're-elected'. The councils themselves were found to include 60% of Communist party members and were generally felt to be ineffective in controlling the directors, the enterprise management. Because of obscurity in the legal regulations most issues were discussed twice: once with the (Communist Party led) trade unions and once with the (Communist Party dominated) works council.

The system was abandoned in May 1990 and replaced, in theory, by one in which the State appointed the top management and half of a "supervisory board" (the other half elected every five years by the workforce). The director and his deputy cannot be members of the supervisory board whose role is one akin to the supervisory board in the German system:

- fundamental questions of the conception of new developments in the enterprise;
- supervision of the management and economy of the enterprise;
- examination of annual financial statements - and the division of applicable profit;
- recommend the appointment and removal of the director;
- oversight of division, merging and closing of the enterprise.

It remains to be seen whether this system ever comes into effect. At present it seems unlikely. What will remain is the fact that under the May Law the government is forbidden from interfering directly in management decisions and the daily operation of management.

The major threat facing the unions at the moment is the possible collapse of the Czechoslovakian Confederation of Trade Unions. Minister of Finance, Klaus, (nicknamed "Mrs Thatcher" by the unions), is believed by them to be trying to eliminate trade unionism. Union views on wage levels, on co-determination in management decisions and in employment policy have been ignored and the Confederation is under increasing pressure to prove that it can, as a national mouthpiece, perform a useful function.
Unsurprisingly, the unions are finding it difficult to establish their new role. In particular the officials, like many other people in Czechoslovakia, are emotionally committed to the concept of full employment and, whilst continually claiming to accept the need for industrial restructuring, have difficulty in establishing collective bargaining over the changes at enterprise level and dealing with the Federal Government at national level.

_The National Agreement_

This latter problem is clearly illustrated by the new General Agreement signed in January 1991. The Confederation was in discussion with the Ministry of Labour and the (still State owned) enterprise managements over this issue for some months. At the time that the Agreement was signed the Government was also negotiating with a World Bank delegation for substantial industrial construction funds.

The Agreement was finally signed by the 21 signatories (7 each for the Government, the Enterprises, and the Trade Unions) on 28 January 1991. Its main purpose was announced as "to maintain social calm" (i.e. no strikes) at a time of massive price increases and wage restraint. In exchange for "social calm" the Government promised to control unemployment. A pay deal was agreed which foresaw inflation levels of 30%. The controversy was described in the West as being over a 'no political or sympathy strike' clause (3), but in reality the main issues were the minimum monthly wage - increased from 1200 Kcs to 2000 Kcs (the average wage in January 1991 was 3500 Kcs) - and indexation. The unions accepted a decrease in real wages. In the first quarter following the agreement the first 12% increase in inflation would be discounted; 10% in the second quarter and further cuts in the indexation link later.

Lifting (almost) all price controls at the beginning of January 1991 was seen by Government officials as "a crucial step towards the market economy". The government accepts that wages cannot be restricted indefinitely in such a situation: "eventually, in a couple of years or so, we want to move towards free collective bargaining". Its main concern at the moment, however, is controlling inflation. In addition to the General Agreement new tax rules penalise enterprises which increase their pay bill overall by more than 2% per annum beyond the agreed rates.

The General Agreement was highly controversial. It was widely believed that it must have had World Bank approval; and that the unions had been outmanoeuvred.
The role of government in industrial relations

The role of the Federal and Republican governments in labour relations is still being worked out. The Slovak Ministry of Labour for example has only been in operation for three years and its officials are keen to point out that it is "equal to, not subordinate to", the Federal Ministry of Labour. The parameters continue to be contested. The Federal Ministry has responsibility for national laws and national institutions: particularly employment in such sectors as transport and communication. The Republican, Slovak or Czech Ministry has responsibility for commercial and consumer sectors in their region. There is also a split on subject levels: the Federal Government has responsibility for minimum pay levels, the current pay limitations, pension and unemployment rates and basic employment rights. Republican Governments have responsibility for pay and benefits, employment numbers, the unemployed and training provision. This contest will no doubt develop and the limits be clarified, over the next few years, particularly as the current system of funding the national ministries by subvention from the Federal Government on the basis of population size is replaced by some form of independent local taxation. According to government officials "if the main political goal is to 'enter Europe' we will have to work nationwide to bring our situation up to a uniform European standard". The Federal Government is using this objective as a major argument against the decentralisation of labour policy.

Currently the old 'Labour Code', which covered all relationships between the enterprise and employees is still in force - though not, in practice, enforced. The code has been amended twice since the revolution: once allowing private employers to employ other people (previously only self-employment had been allowed outside the State system), then to delete paragraphs "which would slow down economic reform", i.e. to remove the sections which prevented dismissals, and deleting the formal State-originated 'collective agreements' and allowing them to be replaced by real negotiations. The Ministry of Labour has a working party in the process of drafting, for 1992, a new Labour Code, which breaks away entirely from the old Communist one. The ILO and the European Community are helping with this process as Czechoslovakia aims, long-term, to 'join Europe'. These developments run alongside tax and fiscal reforms which will take at least two years to complete. Taxes at present are related to age, to family size, and other sources of income, and all go direct to the state. These will have to be replaced by income and enterprise taxation, divided amongst national and local government.
Czechoslovakia is at present in the process of trying to establish labour transferability - setting up labour exchanges for the first time. This is a pragmatic process; no-one in the country has experienced a free labour market for 45 years. There is a great deal of rapid experimentation and learning going on. The sales decline which followed price liberalisation has contributed to the enormous pressures to reduce costs, especially labour costs: this is a central problem for production enterprises and, if anything, an even more critical issue for wholesaling and trading enterprises. The importance of establishing a properly functioning labour exchange system is clear.

Ministry experts who talk about the labour exchanges - established in September and October 1990 - continually stress that these are "new" organisations, with nothing to do with the old system of work allocation. The exchanges have three departments: job placement; training and retraining; and unemployment benefits. They are supposed to be developing "active employment policies" and to avoid paying unemployment benefit by ensuring people find jobs before benefit is due. The Government has passed three specific regulations: encouraging the creation of "publicly useful jobs"; concerning the payment of unemployment benefit; and promoting training and retraining.

There are no formal relationships between employers and the labour exchanges; so each exchange has nominated "one or two" people to visit enterprises to discuss their employment prospects and policies. In general companies are notifying the exchanges of potential redundancies; but are still loath to go to them for recruitment purposes.

The labour exchanges are also finding that workers are suspicious of them. Dismissed workers will attend - workers looking to change jobs will not.

Three quarters of workers in Czechoslovakia wishing to set up a new business try to do so whilst still employed (i.e. in the state sector). Labour exchange officials are disappointed that the enterprise managers are putting difficulties in their way - by such means as refusing time off, refusing to rent premises or sell off redundant machinery and equipment.

For retraining purposes the labour exchanges are trying to find premises and teachers in schools and colleges. This programme, however, has been noticeably slow to get off the ground. The major problem seems to be that there are few clear policies on which industries to train for: it's reasonably obvious which industries and skills are likely to be reduced, but not which should be grown.
These problems are exacerbated by the inexperience of those handling them. It is not just that the politicians are all new to the job - but so are many of their civil servants. To take one example, the Federal Prime Minister's Office in Prague had been overtly subjected to control by the central secretariat of the Czechoslovakian Communist Party. The result was that the Prime Minister's office was staffed largely by a mixture of Party officials and other civil servants who were seen as not good enough for the main Communist Party secretariat. This has all changed: now, as the staff there put it, "this Office is Number One". And there is a tremendous pressure on these officials, who have to prepare a complete new set of legislation, in all areas, to replace the old Communist system. Nearly 70% of the previous incumbents have been removed, as either politically tainted, or incompetent. The new officials - including a substantial number of former academics - are trying to cope with the flood of legislative requirements, and ad hoc problems, in a situation where they are still trying to find their feet. "We dread the Cabinet meeting every Thursday morning" said one former academic who had been a senior civil servant for only a few months. "We know that after every one there will be something else that we've never faced before that we'll have to handle".

The position in the Ministry of Labour is more stable, but even here 25% of the previous officials - often at the most senior level - have been removed.

Civil Service Contracts

The country is also facing a problem in trying to establish the nature of civil service contracts of employment. Until recently every employee in Czechoslovakia had been employed by the state: the issue of distinguishing separate arrangements for civil servants did not arise. Now they are having to be faced. Who should be included? Where should their responsibilities begin and end? Should civil service employment exclude the individuals from having jobs elsewhere? What to offer top quality civil servants in exchange for their loss of opportunities in the private sector? The government is preparing a new code for the civil service which it hopes to introduce before the end of 1991: the civil service union is already proposing a new collective agreement.

At present Czechoslovakia is looking back to its own history and to support from experts from the EC to develop the new role for its civil service. Czechoslovakia had, of all the Eastern European countries, the longest and most successful
democratic tradition. The need for stability and professionalism runs counter to what
the Czechs refer to as "the purification of the civil service", in other words ensuring
that the ancien regime of Communist apparatchiks is rooted out from positions where
they could sabotage present policies. They believe that their rights, duties, career
development and such issues can be decided relatively easily; but there will be a
lively debate about the scope of the civil service; and who the rules should cover. At
present the need to attack the position of the more unreconstructed apparatchiks
within the civil service has led to a considerable fall in the status and motivation of
civil servants. Attracting and retaining well educated and well qualified people into
the civil service is becoming a problem as the best students aim continually for
employment in the more dynamic private sector with its more obvious rewards.

Consultancies

There is little room in a Communist command economy for consultancies: the
inefficiencies they might expose would be too challenging. Nevertheless there was,
in Czechoslovakia, quite a lot of consultancy-type activity, non fee earning of
course, conducted by the Universities and the various Ministry Research Institutes -
including those of the Ministry of Labour. The new political and economic system
provides massive opportunities for consultancy - in personnel and industrial relations
issues as elsewhere. Many small local consultancies are being established in this field
by individuals who see themselves as at last able to make a wider contribution - and
to make money.

Western consultants are also moving in. These include the big consultancies from
American and Western Europe - who see a huge market opening up in Central and
Eastern Europe just as their traditional markets start to tighten up. They also
include small consultants, often individuals with knowledge of the Czechoslovakian
language or family ties with Czechoslovakia. The objectives of those offering this
support are not always clear - and their competence in the Czechoslovakian
environment is often highly questionable. Not every senior manager in the West
knows how to choose and use consultancies. Czechoslovakian senior managers,
though, are particularly naive in this area. Some sad errors are being made which
will not help the country of the establishment of open industrial relations. This is an
area where Czechoslovakia reflects one of the real problems facing all the 'ex Eastern
Bloc' countries.
Personnel Management in Czechoslovakia

In some ways the personnel management function faces similar problems to those of the civil service. Twenty five years ago the function was well staffed. A clear policy by the Communist government to promote psychology and sociology led to the creation of good training programmes and effective research institutes. Good quality graduates were going into enterprises in the personnel function. In the higher technology companies where the need for high quality, well educated specialists in the company made clear the importance of the personnel role, many such specialists are still found.

Elsewhere, however, governmental policy changes created first a more administrative role for personnel specialists, subservient to Ministry of Labour officials, and then an overtly political one. Personnel managers were given the task of allocating and controlling employment; for some years the personnel manager selected the general manager. This was a role undertaken by Communist Party officials. One of their main functions was "to maintain an appropriate political environment". They were powerful departments in areas such as who to employ - or dismiss - but were hardly professional personnel specialists in the Western sense.

After the revolution there was pressure to abolish these widely disliked and feared personnel departments. However, with the economic changes and their impacts on the human and social side of enterprises, they were reprieved.

Attempts to remove Communist party administrators and to reduce overheads in industry, however, often led to the wholesale decimation of personnel departments. Central direction is no longer available and the labour code is, in effect, now just ignored. But many enterprises have no specialists able to develop their own policies.

Czechoslovakia needs to get highly qualified, well motivated people to go into and develop in personnel jobs - to be an engine for change in a situation where the image of personnel departments is low, and the specialists who remain are often demoralised and demotivated. The function is far from professional in many enterprises, and has not yet learned to handle the range of what would be understood in Western Europe to be personnel issues. The staffing, qualifications, expertise and material for effective personnel departments are notably lacking. University graduates are unwilling to go into personnel work.
Training of professional personnel specialists had largely been carried out - if at all - by formal University programmes. In practice these were carefully monitored programmes providing often useful, but limited, training. Several of the Czechoslovakian universities now have more modern courses on personnel management; usually based in their law faculty. Charles University, in Prague, looks likely to establish a chair in personnel management. The Economic School has a chair in Labour Economies which teaches a form of personnel management, and the subject is also taught in the Psychology and Sociology faculties. The Law School has 240 students going through a personnel management course closely modelled on the Harvard Business School human resource management programme. These developments are running alongside a reform of the university system in favour of a broadening of subjects: in general this means that personnel management is linked, more often, to enterprise management and may soon be included in all management courses.

The Czech Institute of Management provides two courses: a "Personnel and social development of companies" emphasising the importance, content and methods of personnel management; and a "Modern methods of personnel management" programme concerned with specific techniques. These one or two week courses take place five or six times a year, with around 20 participants, and are generally held in Czechoslovakia to be well taught and useful programmes, utilising many Western ideas and teaching techniques. The Institute also runs general seminars on such technical issues as "running training courses"; and "refresher" courses on current issues. Overall the provision falls well short of the requirement.

Older people look back on the success of enterprises such as Skoda and Tatra and their high quality personnel management between the wars. Experts from France and other Western countries were remembered as having come to Czechoslovakia to learn about personnel management. The influence of the Communist regime however was in the direction of massive centralisation and the loss of personnel management skills at the enterprise level. Recruitment, training and evaluation skills at the enterprise level have been almost entirely lost. Reintroducing them will be a complex task.

It is undoubtedly an important task. The country has major skill shortages: in financial, sales and marketing areas, for example. The problems of efficient human resource management, complicated by the rapidly changing relationship with the State, are manifold. There is a feeling in Czechoslovakia that there must be a sharp
change in focus in the enterprises from essentially employee welfare centred to efficiency centred; what some commentators in the West would see as a move from personnel management to human resource management.

A key objective is seen as the requirement to create workforces which are efficient and successful. President Havel has said that the moral damage caused by Communism is worse than the material damage. Poor work morale and discipline, lack of motivation, reluctance to take risks and other negative attitudes are widespread. Labour costs are still comparatively low in Czechoslovakia and give a potential advantage: but only if a more professional and productive labourforce can be created. Working attitudes and the culture of work have for many years been, and still are, bureaucracy-bound and far from dynamic. In such a situation the role of personnel management is critical.

Looking Forward

Industrial relations in Czechoslovakia are in a process of flux. The process is fascinating; and far from complete. The development of western style industrial relations will be dependent, to a considerable extent, on the country's success in establishing a stable market economy. As has been shown this will not be easy. Problems of inflation, reducing real incomes and unemployment are bound to accompany industrial restructuring. These are all problems which most Czechoslovaks have never experienced before: and are very concerned about. In this respect, as in many others, Czechoslovakia is a microcosm of the whole of the newly independent Eastern European bloc.

There is, however, considerable goodwill in Czechoslovakia. The three parties concerned, the Government, the unions and the personnel specialists in the enterprises, seem determined to establish a form of industrial relations that, whilst it is drawn from and reflects the specific situation in the country, would be recognisable to commentators in the West. Educational levels are good. Many specialists amongst the three parties to industrial relations are well educated, often with doctorates. There is a real willingness to learn from Western Europe in particular.

If any of the countries that were previously in the 'Eastern Bloc' can establish genuinely free and effective industrial relations, it is Czechoslovakia. It will be worth close monitoring over the next few years.
REFERENCES


