

Regulating employee representation in post-socialist supervisory boards

Introduction

This study explores the position of (organised) labour in post-socialist corporate governance systems. More specifically, it seeks to explore the position of employee representatives on supervisory boards in central Europe.

The literature is quite united in its view that organised labour is among the losers of the post-socialist economic restructuring process. Yet, explanations for this development are contradictory. First, there are those who relate the weakening position of organised labour primarily to domestic circumstances (Ost, 2000; Crowley, 2004; Ost and Crowley 2001; Avdagic, 2005). They point out that trade unions and other forms of labour representation have a rather low standing within post-socialist societies because of their role in the socialist era. Their close ties to the state apparatus were widely considered as a kind of collaboration with a system that had lost its legitimacy. Second, there are those accounts that assess the influence of the European Union on the rise of post-socialist industrial relations. Here, it is argued that the European Union has had considerable leverage, both through formal and informal influence, on emerging post-socialist institutions (see, for instance, Vickerstaff and Thirkell, 2000; Meardi, 2002). Third, there are those analyses that relate the position of labour to the kind of economic systems that have emerged in the post-socialist countries of central Europe (predominantly Bohle and Greskovits, 2004, 2006, 2007). Post-socialist economies in central Europe have specialised in the production of durable consumer goods. Building on the notion of comparative advantage, Bohle and Greskovits argue that such an economy requires low levels of labour costs that do not allow for a fully-developed welfare system.

This study sets out to evaluate these different accounts by looking at developments in one specific area: the regulation of employee representation on corporate supervisory boards. The right of representation on supervisory boards is of a somewhat different nature than issues that are traditionally discussed within the literature on post-socialist labour. Current empirical accounts primarily focus on issues such as wage bargaining and other social provisions such as sick pay and safety regulation (Deacon, 2000; Kovács, 2002). In contrast to these issues, representation on the supervisory board involves employee engagement in strategic long-term decision-making in a firm (Jackson, 2005). This issue is discussed in national company acts alongside other corporate governance issues, such as the protection of (minority) shareholder rights, rather than in national labour acts that normally constitute the basic law of industrial relations (Jacoby, 2001). On the other hand, there is a close affinity between corporate governance issues and industrial relations (Höpner, 2005). Jackson (2005: 24) has pointed out that union density and co-ordinated wage bargaining are highly related to high levels of co-determination and strong employee representation on supervisory boards. Therefore, it might not come as a surprise that the relatively limited literature on this kind of employee representation tends to reproduce the more general trends discussed above; in contrast to their west European counter-

parts, employee representatives in central European corporations are weakly positioned *vis-à-vis* other stakeholders within the corporation (Boda *et al.* 1996; Frege, 2002).

Empirically, this study focuses on the Hungarian regulation of employee representation on supervisory boards; this is an ideal case for discussing the different accounts as it fits all the propositions. Hungary is a country where organised labour has been closely associated with the socialist regime; it has been amongst the forerunners in the region when it comes to European integration and it is also highly integrated in the world economy. Therefore, it seems very likely that we will find all the forces that are indicated in the different accounts. At the same time, the general findings of the literature with regard to the position of labour in post-socialism also hold in the field of employee representation on the supervisory board, which has been weak since the start of the economic transformation (Boda *et al.* 1996: 12). Consequently, a focus on the role of employee involvement on supervisory boards might extend the leverage of theories on the position of post-socialist labour beyond direct wage bargaining and tripartism.

This article proceeds as follows: in section two I will discuss the different kinds of explanations the literature currently offers for the weak position of (organised) labour in post-socialist Europe. I will then turn to the concept of transnationality in order to rephrase how the interplay between these different explanations needs to be understood and studied. In section three, I will discuss the regulatory developments with regard to the formal position of employee representatives on supervisory boards in Hungary since the late 1980s. Here, I will demonstrate that the developments in company law can only be understood if we look at national, European and transnational developments. In section four, I will further explore the consequences of regulatory developments for employee representation on supervisory boards. Section five concludes.

What explains the position of labour in post-socialism: domestic, European and transnational mechanisms for the weak position of labour

In recent years, an increasing amount of scholarly attention has been paid to the position of (organised) labour in post-socialist Europe. Various issues have been investigated in this respect: how strong is central European labour compared to western European labour? To what extent is there variation within the region and what explains this substantial variance? What has been the impact of EU enlargement on industrial relations in the region and what impact does the region have on the EU as a whole? The majority of studies have pointed out that the position of labour in post-socialist Europe is weak, especially compared to the position of labour in western Europe. This weakness is a common feature of all post-socialist countries, which might be surprising given the great variation between them on other issues.¹ However, whereas the majority of studies point to an overall weakness of organised labour in the region, the

- 1 There is a limited number of studies that argue that a substantial form of post-socialist corporatism has emerged in the 1990s (see Iankova, 1998). The most 'widespread view, however, was that tripartite institutions are far from being vehicles for corporatist policy making and that they have been used by governments mostly to legitimize their already-decided policy choices rooted in neoliberal economic principles' (Avdagic, 2005: 28).

reasons for this weakness tend to vary from study to study. Broadly, we can discern three kinds of accounts: domestic, European and transnational – Table 1 provides an overview of these strands of the literature.

Table 1 – Overview of factors influencing labour in post-socialist Europe

Level	Factors weakening labour	Factors strengthening labour	General outcome as regards industrial relations	Hypothesis: worker representation on supervisory boards
Domestic	Discredited after state socialism	Socialist institutional legacy	Illusory corporatism	Illusory representation
European	Introduction of market mechanisms	European Social Model	Incomplete implementation of the European Social Model	Incomplete functioning of labour representation
Transnational	Comparative advantages of region (low labour costs)	A varied set of labour-related transnational actors (ILO, ETUC)	Embedded neo-liberalism	Possible, but weak in comparison with western Europe

First, there are accounts that point to the role of trade unions and other representatives of worker states during the socialist era and their subsequent discrediting at the end of the 1980s and the start of the 1990s. Such accounts draw heavily upon a path dependency approach and aim to demonstrate that the emerging corporatist arrangements are more symbolic than substantive (Ost, 1999, 2000). Post-socialist elites have included labour into their socio-economic institutions for several reasons. First, labour was integrated into the post-socialist arrangements in order to share the costs of the economic restructuring programmes. Second, governments opted for talks with the various social partners in order to gain legitimacy amongst the population. Moreover, the process of the formal inclusion of labour was in line with the legacy of the socialist system. Therefore, this strand of the literature concludes that the:

Establishment of tripartite bodies was a means to control labor, not to empower it. (Ost, 2000: 523)

Instead of the emergence of real corporatist arrangements, the region experienced the rise of an ‘illusory corporatism’ (Ost, 1999, 2000).

This is not to say that there is no variance between the different states in the region, but that these are primarily related to causes and developments at the national level. Crowley (2004), for instance, argues that the common institutional and ideological legacies of the socialist period may explain the overall weakness of labour in the post-socialist period, but that there are also differences between post-socialist states, especially between eastern and central European countries and those further eastwards. Others have explored these differences and found that post-socialist industrial arrangements also differ between eastern and central European states. Cox and Mason (2000: 327) explain these differences in the context of four factors:

1. the power of organised labour
2. the organisational articulation of labour
3. state capacity to organise industrial relations after state socialism
4. the concentration and capacity of the newly-emerging employer associations.

Avdagic (2005) relates some of these factors to the way in which labour was involved during the late socialist period and the early years of capitalist restructuring, resonating the larger argument of this phase in the path dependent developments in the region (Stark, 1992).

The second factor that has been of strategic influence on post-socialist industrial relations is the European Union. Most studies do not focus on the practical implications of the enlargement process, i.e. the implementation of the *acquis*, but look rather at the extent to which eastern and central European states have introduced the formal institutions that are known in western Europe. Most studies find that the post-socialist institutions resemble those that already exist in the EU and that this resemblance is the result of 'both imitation and imposition' (Vickerstaff and Thirkell, 2000: 239).

However, if we turn to the question whether these institutions serve the same purposes in western Europe and central Europe, the picture becomes more diffused. There is hardly any empirical evidence on the impact of the EU on eastern and central European industrial relations practices. Meardi (2002: 80) observed self-assured optimism amongst organised labour in eastern and central Europe on the basis of hopes that enlargement would lead to an increase in wages, but this optimism has been only marginally backed up by actual developments in the region. What is striking in this context is the mismatch between the economic and social concerns that have been put forward by the EU since the collapse of state socialism. Whereas economic issues have received tremendous attention, European attention towards social issues has resembled more a kind of 'lip service' (Rys, 2001: 187; but see also Bohle (2004) and Scharf (2002) for a more general argument). The result has been that the general point within this strand of the literature is that the European Social Model has only half-heartedly been introduced in the post-socialist context.

A third strand in the literature offers another explanation for the weakness of (organised) labour in the post-socialist system. It points to the importance of transnational private actors in the restructuring of industrial relations in emerging market economies and the role of the region within the capitalist world economy. It departs from the notion that the economic transformation is embedded within a neo-liberal global economy in which central European states have a distinct position, namely that of a global assembly platform (Pickles *et al.* 2006). The comparative advantages on which the region builds are low labour costs in combination with a relatively skilled labour force, which results in a flourishing environment for labour intensive and export-oriented industries (Bohle and Greskovits, 2004). Such an environment is unsuitable for the kind of compromises between labour and capital that exist in western Europe and that were the result of a strong labour movement being able to enforce substantive compromises from capital after the Second World War (Boyer, 1995). Industrial relations in this respect:

Were much more thoroughly shaped by the influence of transnational factors than in the case of Western liberal market and coordinated market economies. (Bohle and Greskovits, 2007: 464)

The place of central Europe in the world capitalist production system rather supports an industrial system in which labour is subordinated. This is not to say that a social compromise between capital and labour cannot be reached. Especially in those countries that are prominently engaged in complex manufacturing sectors – as is the case in Hungary – such a compromise is within reach, especially if employees and employers are effectively organised. Such a compromise is, however, not very likely to be as substantial from labour's perspective as the kind of compromises that were reached in western Europe after 1945.

The argument that the weak position of labour is caused by the insertion of the region in the global production system is partly backed up empirically by studies that scrutinise the way in which transnational corporations deal with industrial relations in the region.² In contrast to some expectations (for instance Gradev, 2001), there is hardly any straightforward evidence that transnational companies introduce the industrial relations of their home countries in the host country (Bluhm, 2001). However, there are differences between industries that have entered the region because of its cheap labour force and those industries that entered the region at the end of the 1990s and which were more capital intensive (Margison and Meardi, 2006).

Together, these three causal explanations for labour's weakness pose interesting problems. How do these accounts relate to each other: are they contradictory or can they be used to complement each other? To be fair, most studies do actually take on board a combination of these causal mechanisms, although in their empirical analysis most draw on only one of the three. In particular, the first strand, which focuses on domestic explanations for the existing state of industrial relations, has been explicitly accused as 'wanting for neglecting international and transnational influences' (Bohle and Greskovits, 2007: 463). On the other hand, the second and third strands, which focus on the European context and the global economy, hardly engage in the process of the translation of these influences into the different national systems. Greskovits and Bohle do take some of the differences between the new EU member states into account, especially the differences between the Visegrad four and the Baltic states, but only to the extent to which they can be related to their position in the world economy; national factors are hardly mentioned.

All in all, what is lacking in the literature is attempts to investigate the interaction between the various causal explanations, both theoretically and empirically. This is what I want to do in the remainder of this article. Rather than juxtaposing the three mechanisms, the aim of the article is to discuss the interplay between them. It aims to do so by theoretically taking the concept of 'transnationality' and applying it to industrial developments in eastern and central Europe. Industrial relations in eastern and central Europe are the product of a multi-level process consisting of a continuous interaction between both public and private forces at various levels. The term 'transnational' as applied in this article reflects the notion that political processes in a globalising world are no longer fundamentally defined by national boundaries but occur simultaneously at sub-national, national and international levels, integrated through structures and forces that simultaneously operate at different levels (Van Apeldoorn *et al.* 2007: 6-7).

2 This is, however, a research field that only quite recently has started to attract considerable attention.

Post-socialist industrial relations and the changes in them are embedded in the wider economic transformation from a planned socialist economy to a capitalist market economy. All the developments discussed above have had an impact on the outcomes of this transformation; it is influenced by developments within the individual countries that are going through this transformation, but is also co-shaped by developments within the European region that are probably best exemplified by the process of EU enlargement. Thirdly, the developments are embedded in a global context in which transnational capital is in search of profitable locations for investment in order to raise its profit rates (see also Vliegthart and Overbeek, 2007).

The notion that there are at least three geographies in which industrial relations in central Europe are embedded should not lead to the conclusion that we are thus witnessing a three-level game (following Putnam’s two-level game theory of 1988). Rather, we need to move beyond the artificial boundaries between the three geographies and recognise that they are mutually influencing each other continuously. On the one hand transnational forces, such as transnational firms and international financial institutions, operate simultaneously at the European and at the national levels, influencing internal (power) structures at these two levels, and the same argument can be made for European actors active at the national Hungarian level.

General developments in company law in the post-socialist era

In this section I will look at what impact these three interconnected levels have had upon the development of Hungarian company law, the basic law which lays down the employee right to participate in supervisory boards. Here I will differentiate between the general state strategy and the ways in which the laws have accommodated the pressures put forward by the European Union and transnational private and public actors (see Table 2). I will point out first that post-socialist law had its roots in Hungary’s pre-socialist history, combined with the integration of many of the basics of the German legal system. I will subsequently argue that the first major revision of the 1988 Company Law, in 1997, was motivated by Hungarian attempts to enter the EU and was actively endorsed by the Hungarian government which sought to strengthen the institutional underpinnings of the emerging capitalist order. The second major revision, in 2006, was then again primarily inspired by the increasing attractiveness of the Anglo-Saxon corporate governance model that, in many respects, diverges from the gradually-emerging Hungarian system. The European Union and parts of the Hungarian political establishment also promoted this break with some of its legal traditions, such as the compulsory two-tier system.

Table 2 – Company law developments in Hungary

	1988 Company Act	1997 Company Act	2006 Company Act
Central aim	Providing a legal ground for systemic change	Further protection of creditors	Fine-tuning the setting up and running of various kinds of businesses
State strategy	Privatisation	Institutional underpinnings	Fine-tuning of the economic system

	1988 Company Act	1997 Company Act	2006 Company Act
European context	-	1 st , 2 nd , 3 rd , 6 th and 12 th EU directives	The Commission's attempt to introduce a market for corporate control
International context	Attractiveness of the German legal model		Increasing attractiveness of one-tier system
Intellectual input	Pre-socialist legal heritage	European Commission (1995 White Paper)	Anglo-Saxon corporate governance model
One- or two-tier system	Compulsory two-tier	Compulsory two-tier	Two-tier no longer compulsory in all cases

Sources: Kisfaludi (2004), Neumann (2006).

The first post-socialist company law was mostly inspired by the Hungarian pre-socialist legal tradition and was supplemented by provisions that were almost directly and voluntarily taken from the German legal system. The European Union had only a sub-ordinated role in the emergence of the 1988 Company Act, particularly since Hungarian membership was still very much beyond the horizon. Nevertheless, the 1988 Act pointed out that:

The company law directives of the European Community known at the time of the preparatory works were taken into consideration, (1988 Company Law, quoted in Kisfaludi 2004: 709)

but it is rather unlikely that this reference emanated from European pressures.

During the socialist period, private property was officially non-existent and, therefore, hardly regulated. Nevertheless, some of the Hungarian companies that either had foreign involvement or which acted internationally still fell under the pre-socialist corporate legislation. The regulatory system that had slowly evolved since the mid-19th century was highly based upon German legislative tradition; this provided the main source of inspiration for the 1988 Company Act that was to regulate the post-socialist order but which was introduced before the first post-socialist democratic elections (Dobák and Steger, 2003: 225- 227). The 1988 Act aimed to provide a general framework for the systemic changes that followed upon the privatisation process.

The 1988 Code also regulated the compulsory introduction of a two-tier board system for all companies with more than 200 employees. The supervisory board controls the management and reports to the annual shareholder meeting on strategic matters and the long-term future of the corporation. That Hungary has employee representation on supervisory boards might sound counter-intuitive, based on accounts of labour weakness: employee representation on supervisory boards is generally associated with countries like Germany and Austria, where employees have a relatively important say in the strategic decision-making of a corporation. The choice of a compul-

sory two-tier system, however, needs to be understood in the light of both the socialist heritage of the country, which had made the representation of employees in any walk of life ideologically mandatory, as well as the orientation towards the German model, in which employee representation has been part and parcel of the system of industrial relations. However, the Hungarian law differed on one substantial issue from the German model:

It did not grant strong co-determination rights to the planned work councils but conceptualised only a rather weak, consultative works council. (Galgóczy, 2003: 28)

Ádám (2000: 154) even goes so far as to argue that the introduction of these works councils did not serve the purpose of creating a kind of labour relations that attributed important rights to workers but that the introduction of works councils was, first and foremost, aimed at weakening the position of the post-socialist trade unions. I will come back to this issue in the next section.

In the passage of the first years of economic transformation, it became clear that the 1988 Company Act displayed some important weaknesses, especially with regard to the protection of creditors and minority shareholders. According to the preamble of the 1997 Revision, the 1988 Company Law had explicitly neglected the rights of creditors in order to facilitate the aims of the Hungarian government to exempt state enterprises. The strict protection of creditors would only have hindered the emergence of active entrepreneurs and, without their involvement, the transformation towards a capitalist economy would be impossible (Czajlik and Vincze, 2004: 7). The explicit neglect of the rights of newly-established owners illustrates the general notion in many post-socialist economies during the early 1990s that the introduction of market forces would be enough to create a market economy; additional regulation would only hinder the effective functioning of the market. However, it became increasingly – and often painfully – clear as the first waves of privatisation passed that such a strategy was likely only to fail if it was not accompanied by an institutional framework that would take care of the rights of these newly-emerged owners (see Vliegenthart, 2004).

This increasing concern over the need for institutional underpinning perfectly matched the EU's demands with regard to the implementation of the *acquis*. Bruszt (2002) points out that the notion of market-making, which so prominently figured in the EU's notion of a successful economic transformation, included the reshaping of the institutional structure towards the protection of markets and the players in them. The 1991 Europe Agreement between Hungary and the European Union obliged the Hungarian government to harmonise Hungarian corporate law with European company law (Kisfaludi, 2004: 706), including the introduction of:

A level playing field for investors in an enlarged Union. (Dragneva and Millan, 2002: 205)

In the 1995 White Paper, the European Commission laid down a reform framework that needed to be implemented before central European countries could seriously negotiate EU membership. Amongst these demands, corporate legislation took an important place: almost a complete chapter in the Association Agreements was dedicated to it (Arlt *et al.* 2003: 247). This included the implementation of some of the EU company law directives. The 1997 revision transposed these directives into

the Hungarian context while simultaneously strengthening the rights of minority shareholders and creditors (Arlt *et al.* 2003: 255).

By the end of the 1990s, the basic company legislation was in place and was mostly in line with the requirements of EU membership. In its 2002 progress report, the European Commission concluded that:

In the field of company law a significant degree of alignment has been achieved. Outstanding issues are of a technical nature. (European Commission, 2002: 61)

Simultaneously, foreign investment in the region exploded at the end of the 1990s, with central European states in considerable competition to attract as much foreign direct investment as possible. To enter this competition in the best possible shape, states in the region were willing to follow the ideas introduced by (the local subsidiaries of) transnational investors (Grabbe, 2003: 248). A corporate governance regulation that allowed only for specific organisational forms was increasingly seen as over-rigid and in need of deregulation (Sarkozy, 2006). Voluntary corporate governance codes were preferred to formal regulation when it came to settling loose corporate governance issues and, subsequently, all countries in the region introduced a corporate governance code in the early 2000s (Collier and Zaman, 2005: 767-768³). In this changing regulatory climate, the Hungarian government introduced a new Company Code in 2006 that was aimed at simplifying the setting up of new corporations and which increased the organisational freedom of corporations (Sarkozy, 2006).

The new Act also had some important repercussions for the position of the supervisory board within the Hungarian system. The 2006 Company Act does not make the existence of a two-tier system completely voluntary, as was proposed in some of the initial drafts, but it does provide the opportunity to merge the functions of the supervisory board and the board of directors. The 2006 Company Act therefore constitutes a kind of deregulation. Instead of providing detailed procedures with regard to how a company ought to be run, these issues are left to the companies themselves, i.e. to the shareholder meeting (Neumann, 2006a; Meardi, 2007: 507). This process of deregulation further seems to strengthen the position of (majority) shareholders, but it can very well undermine the position of employees within the corporation in the longer run as it weakens the position of supervisory boards, thus including its employee members, *vis-à-vis* the annual shareholder meeting.

In the following section, I will turn to this issue more explicitly as I will discuss the history of employee representation on Hungarian supervisory boards over the last two decades.

Labour representation on supervisory boards: developments in twenty years of economic transformation

How are these regulatory practices translated in the daily functioning of employee representatives on supervisory boards? A complete answer to this question is beyond the course of this article: there is always an important gap between regulation and practice and this is no different in the case of the post-socialist regulation of corporate governance. Nevertheless, I want to make a couple of preliminary remarks with re-

3 See www.ecgi.org for a complete overview of all European corporate governance codes.

gard to what impact regulatory developments have had upon the role of employee representatives.

In addition to the general introduction of a two-tier system that was established in the 1988 Company Act, the 1992 Labour Code provided the rules of how employee representatives were to be elected. It spelled out that, in companies that employed more than 200 people and were to have compulsory supervisory boards, the one-third of the board that consisted of employee representatives were to be elected by the company's works council. The idea to introduce works councils and give them an important role in post-socialist industrial relations was actively put forward by high-ranking ILO experts during their visits to Budapest in the early 1990s. These experts saw works councils as a viable alternative to trade unions that were rapidly losing members and thus legitimacy (Galgóczi and Toth, 2000: 104). Their suggestion simultaneously fitted in the strategy of the first post-socialist Hungarian government to limit the powers of trade unions wherever possible (Ádám, 2000).

Over time, however, the trade unions regained some of their strength and accomplished an important practical say in works councils as they were able to get their representatives chosen as works councillors. This close co-operation between works councils and trade unions is often effectively materialised by prominent trade union representatives having a seat on works councils. Theoretically, it allows for effective concentration and the use of important information (Kluge, 2004). In practice, this implies that employee representatives receive information from the corporation's chief executive or board of directors but, subsequently also, statistical information from senior accountants and financial directors. The most important information is then channelled back to the works councils and other trade union representatives.

At the same time, the employee representatives are highly dependent on the information given to them by chief executives. The result is that the effectiveness of employee representation at board level depends to a great extent on the goodwill of the management rather than a strong independent position. Employee representatives generally acknowledge this weak position but, nevertheless, argue that the relationship between employees and management tends to the co-operative and that both sides see each other as trustworthy partners, as Frege (2001: 308) pointed out in the Hungarian context. Formally, employee representatives are granted the right to have their position in the supervisory board heard at the annual shareholder meeting when they have been outvoted within the supervisory board itself. However, this right to express a minority opinion is not often used by employee representatives.

Despite these rights, it is generally accepted that there remains little influence for employee representatives on supervisory boards in central European countries such as Hungary (Martin and Cristescu-Martin, 2000: 353) and that, moreover, while supervisory boards theoretically play an important role in the region, their practical relevance is rather limited (Iwasaki, 2005: 5). In 2003, the World Bank concluded that the overall corporate governance system in Hungary was amongst the best compared to all other emerging market economies but that the role of the supervisory board was an issue of concern. The board of directors was not effectively supervised, while the World Bank further pointed out that the supervisory board was effective only in taking issues to the general meeting rather than in solving them itself. Within this issue also, we can see the interplay between the various levels.

At the domestic level, it is striking that Hungarian trade unions scarcely protested against the 2006 Company Law amendments. The trade unions raised their voices against other issues in the law – for instance, the possibility of appointing employee representatives in corporations without work councils – but they did not protest against the possible consequences of abandoning the compulsory two-tier system, since they:

Apparently were not aware of the problems regarding the regulation of employee representation in the one-tier system at all. (Neumann, 2006b: v)

Their disinterest might partly be explained by the weak position of these employee representatives, but it might also be fuelled by the dubious reputation of the position of employee representatives on the company's supervisory board, as one employee board member reported. Many:

View board-level representation as nothing more than an opportunity to provide local union leaders and works councillors with extra income. (Kanizslai, 2005: 14).

From the European perspective, the 2006 reduction of the role of the supervisory boards and its employee members fits into a wider tendency actively promoted by the Commission. After the late 1990s and early 2000s, the European Commission has made quite some effort to strengthen the position of shareholders within corporations *vis-à-vis* the other stakeholders. Deregulation policies in this respect are expected to lead to the undermining of the traditional 'Rhineland' institutions, such as the two-tier system, which are considered to be sub-optimal in comparison to a one-tier system and a functioning market for corporate control (Meardi, 2007: 253, but also Van Apeldoorn and Horn, 2007).

Conclusions

This article aimed to sketch regulatory developments with regard to employee representation in post-socialist supervisory boards. I have argued that these regulatory developments can only be understood if we acknowledge the importance of the multi-level in which these regulatory developments take place. This study demonstrates that regulatory developments have not been the result of one force at a distinct level but, rather, of the interaction between various forces that have simultaneously embedded Hungary into different geographies. During the early years of economic restructuring, national traditions played the most prominent role in the emergence of post-socialist industrial relations, but we can see that the system was later at least partly reformed due to the European and transnational pressures that locked the country into both the European Union and the global production system. The changes with regard to employee representation on the supervisory board demonstrate how the three geographies have been interlinked and that forces at the various levels have indeed mutually reinforced each other.

The study furthermore points out that, in the evolution of the economic transformation, transnational factors have had an increasing impact on the structure of industrial relations in the region. This finding resonates with some of the earlier findings on the impact of transnational agents on the transformation process (Hanley *et al.* 2002;

Drahokoupil, 2007a). This article contributes to the general idea that the evolution of the economic transformation saw its transnational dimension gain importance at the expense of the national dimension. The increasing embeddedness of the region into larger geographies, i.e. Europe and the international economy, made it increasingly difficult for state actors successfully to pursue strategies that ran against those transnational forces which pushed for further integration into these larger political and economic areas. Simultaneously, we can conclude that this development, i.e. integration in the European Union and the global economy, has been an overarching goal shared by most (political) actors in the region. It has been amongst the highest policy preferences of all Hungarian governments, regardless of their political colour. This nearly complete consensus on the desirability of this integration has effectively reduced all other possible alternatives to the intellectual margins.

References

- Ádám, Z (2000) 'Imported Ideas Adopted Locally – Hungarian Bureaucratic Changes in the 1990s' *South-East Europe Review for Labour and Social Affairs* 3(1): 147-156.
- Arlt, M-A, C. Bervoets, K. Grechenig and S. Kalss (2003) 'The Status of the Law on Stock Companies in Central and Eastern-Europe: Facing the Challenge to Enter the European Union and Implement European Company Law' *European Business Organization Law Review* 4: 245-272.
- Avdagic, S (2005) 'State-Labour Relations in East Central Europe: Explaining Variations in Union Effectiveness' *Socio-Economic Review* 2: 25-53.
- Bluhm, K (2001) 'Exporting or Abandoning the German Model? Labor Policies of German Manufacturing Firms in Central Europe' *European Journal of Industrial Relations* 7(2) 153-173.
- Boda, D, J. Karsai, L. Neumann and R. Woodward (1996) *Management Employee Buy-Outs (MEBOs) in Hungary and Poland* CASE Foundation Warsaw, Studies and Analyses No. 69.
- Bohle, D (2004) 'The EU and Eastern Europe: Failing the test as a better power' in L. Panitch & C. Leys (Eds.) *Socialist Register 2005: The empire reloaded* London: Merlin Press.
- Bohle, D. and B. Greskovits (2004) 'Ein Sozialmodell an der Grenze. Kapitalismus ohne Kompromiss' *Osteuropa* 5-6: 372-386.
- Bohle, D. and B. Greskovits (2006) 'Capitalism without compromise: Strong business and weak labor in Eastern Europe's new transnational industries' *Studies in Comparative International Development (SCID)* 41(1): 3-25.
- Bohle, D. and B. Greskovits (2007) 'Neoliberalism, Embedded Neoliberalism and Neocorporatism: Towards Transnational Capitalism in Central-Eastern Europe' *West European Politics* 30(3): 443-466.
- Boyer, R (1995) 'Capital-Labour Relations in OECD Countries: From the Fordist Golden Age to Contrasted National Trajectories' in: J. Schor and J. I. You (Eds.) *Capital, the State and Labour: A Global Perspective* Aldershot: Edward Elgar.

- Bruszt, L (2002) 'Making Markets and Eastern Enlargement: Diverging Convergence?' *West European Politics* 2: 121-140.
- Collier, P. and M. Zaman (2005) 'Convergence in European Corporate Governance: the Audit Committee Concept' *Corporate Governance An International Review* 13(6), November: 753-768.
- Cox, T. M. and B. Mason (2000) 'Interest Groups and the Development of Tripartism in East Central Europe' *European Journal of Industrial Relations* 6(3): 325-47.
- Crowley, S. and D. Ost (2001) *Workers after Workers' States: Labor and Politics in Postcommunist Eastern Europe* Rowman & Littlefield.
- Crowley, S. (2004) 'Explaining Labor Weakness in Post-Communist Europe: Historical Legacies and Comparative Perspective' *Eastern European Politics and Societies* 18(3).
- Czajlik, I. and J. Vincze (2004) *Corporate Law and Corporate Governance – The Hungarian Experience* Institute of Economics Hungarian Academy of Sciences, Discussion Papers 2004/11.
- Deacon, B (2000) 'Eastern European welfare states: the impact of politics of globalisation' *Journal of European Social Policy* 10(2): 146-161.
- Dragneva, R. and E. Millan (2002) 'Transposing the "True and Fair View" Concept in the Legislation of Hungary and Poland in the Context of EU Enlargement' *Review of Central and East European Law* 28(2): 183-209.
- Dobák, M. and T. Steger (2003) 'Corporate Governance in Central and Eastern Europe – An Introductory Review' *Journal for East European Management Studies* 8(3): 223-235.
- Drahokoupil, J (2007a) *The rise of the competition state in Central and Eastern Europe: The politics of foreign direct investment* Budapest: Central European University.
- Drahokoupil, J (2007b). 'Analyzing the capitalist state in post-socialism' *International Journal of Urban and Regional Research* 31(2): 401-424.
- European Commission (2002) *Regular Report on Hungary's Progress towards Accession* Brussels: European Commission.
- Frege, C (2001) 'Understanding union effectiveness in East Central Europe: Hungary and Slovenia' *European Journal of Industrial Relations* 8(1): 53-76.
- Frege, C (2002) 'Union Weakness and Post-communist Identities in Eastern Europe: Evidence From the Hungarian Clothing Industry' *Industrial Relations Journal* 32(4): 295-312.
- Galgóczi, B. and A. Toth (2000) 'Development of the automobile industry in Hungary and the changing patterns of employee interest representation' *South-East Europe Review for Labour and Social Affairs* 3, pp. 89-114.
- Galgóczi, B (2003) 'The Impact of Multinational Enterprises on the Corporate Culture and on Industrial Relations in Hungary' *South-East Europe Review for Labour and Social Affairs* (1/2): 27-44.

- Grabbe, H (2003) 'European Integration and Corporate Governance in Central Europe: Trajectories of Institutional Change' in: M. Federocwicz and R. V. Aguilera (Eds.) *Corporate Governance in a Changing Economic and Political Environment. Trajectories of Institutional Change* Basingstoke: Palgrave, pp. 247-266.
- Gradev, G (Ed.) (2001) *CEE Countries in the EU Companies' Strategies of Industrial Restructuring and Relocation* Brussels: ETUI.
- Hanley, L. King and I. T. János (2002) 'The State, International Agencies and Property Transformation in Postcommunist Hungary' *American Journal of Sociology* 108(1): 129-167.
- Haworth, N. A. F. and S. Hughes (2003) 'International Political Economy and Industrial Relations' *British Journal of Industrial Relations* 41: 665-682.
- Höpner, Martin (2005) 'What Connects Industrial Relations with Corporate Governance? Explaining Complementarity' *Socio-Economic Review* 3(2): 331-358.
- Iankova, E. A (1998) 'The Transformative Corporatism of Eastern Europe' *Eastern European Politics and Societies* 12(2): 222-264.
- Iwasaki, I (2005) 'Corporate Governance in Hungary: An Overview' in: I. Iwasaki (Ed.) *Corporate Governance in Transition Economies Part II: The Case of Hungary* IER Discussion Paper Series, Institute of Economic Research: Hitotsubashi University, Tokyo, pp. 1-20.
- Jackson, G (2005) 'Employee Representation in the Board Compared: A Fuzzy Sets Analysis of Corporate Governance, Unionism and Political Institutions' *Industrielle Beziehungen* 12(3): 1-28.
- Jacoby, S (2001) 'Employee representation and corporate governance: a missing link?' *University of Pennsylvania Journal of Labor and Employment Law* 3: 449-90.
- Kanizslai, L (2005) 'Hungary. Practitioner Report' in Social Development Agency absl and European Trade Union Institute for Research, Education and Health and Safety (Eds.) *Worker board-level representation in the new EU Member States: Country reports on the national systems and practices* Brussels.
- Kisfaludi, A (2004) 'The Harmonisation of Hungarian Company Law - A Pendular Process' *European Business Organization Law Review* 5(4): 705-727.
- Kluge, N (2004) 'Workers Involvement in Europe – A Still Unfinished Jigsaw' in: H. Jorgensen, M. Bearentsen and J. Monks (Eds.) *European Trade Union Yearbook 2003/2004* Brussels: 115-136.
- Kovács, J (2002) 'Approaching the EU and Reaching the US? Rival Narratives on Transforming Welfare Regimes in East-Central Europe' *West European Politics* Special Issue 2(1): 175-205.
- Meard G. G. and P. Marginson (2006) 'EU Enlargement & the FDI Channel of Industrial Relations Transfer' *Industrial Relations Journal* 37(2): 92-110.
- Martin, R. and A. M. Cristescu-Martin (2000) 'Industrial relations in Central and Eastern Europe in 1999: patterns of protest' *Industrial Relations Journal* 31(4): 346-362.

- Meardi, G. G (2002) 'Trojan Horse for the Americanization of Europe? Polish Industrial Relations Toward the EU' *European Journal of Industrial Relations* 8(1): 77-99.
- Meardi, G. G (2007) 'More Voice After More Exit? Unstable Industrial Relations in Central Eastern Europe' *Industrial Relations Journal* 38(6): 503-523.
- Neumann, L (2006a) 'New Company Act Reduces Role of Board-Level Employee Representatives', retrieved from: <http://www.eurofound.europa.eu/eiro/2006/11/articles/hu0611039i.htm>
- Neumann, L (2006b) 'Employee Board Representation in Hungary's New Company Law' retrieved from: http://www.seeurope-network.org/homepages/seeurope/file_uploads/hungary_changesincompanylaw112006final.pdf
- Nordhaug, K (2002) 'Globalisation and the State: Theoretical Paradigms' *European Journal of Development Research* 14(1): 5-27.
- Ost, D (2000) 'Illusory Corporatism in Eastern Europe: Neoliberal Tripartism and Postcommunist Class Identities' *Politics and Society* 4: 503-530.
- Phillips, N (2004) *The Southern Cone Model. The Political Economy of Regional Capitalist Development in Latin America* London: Routledge.
- Pickles, J, A. Smith, M. Bucik, P. Roukova and R. Begg (2006) 'Upgrading, changing competitive pressures and diverse practices in the East and Central European apparel industry' *Environment and Planning* 38(12) 2305-2324.
- Pistor, K (1999) 'Codetermination: A Sociopolitical Model with Governance Externalities' in: M. M. Blair and J. M. Roe (Eds.) *Employees and Corporate Governance* Brookings Institutions Press.
- Pistor, K (2004) 'Patterns of Legal Change: Shareholder and Creditor Rights in Transition Economies' *European Business Organization Law Review* 1(1): 59-110.
- Putnam, R. D (1988) 'Diplomacy and Domestic Politics: The Logic of Two-Level Games' *International Organization* 42(3): 427-460.
- Robinson, W. I (2001) 'Social Theory and Globalisation: The Rise of a Transnational State' *Theory and Society* 30(2): 157-200.
- Rys, V (2001) 'Transition Countries of Central Europe Entering the European Union: Some Social Protection Issues' *International Social Security Review* 54(2&3): 177-189.
- Sarkozy, T (2006) 'The Third Act on Business Associations – Law Conceived in the Spirit of Deliberate Progress' *Acta Juridica Hungarica* 47(3): 227-248.
- Scharpf, F. W (2002) 'The European Social Model: Coping with the Challenges of Diversity' *Journal of Common Market Studies* 40(4): 645-670.
- Stark, D (1992) 'Path Dependence and Privatization. Strategies in East Central Europe' *Eastern European Politics and Societies* 6: 17-54.
- Van Apeldoorn, B, A. Nölke and H. W. Overbeek (2007) 'The Transnational Politics of Corporate Governance Regulation: Introducing Key Concepts, Questions and Approaches' in: B. Van Apeldoorn, A. Nölke and H. W. Overbeek (Eds.) *The Political Economy of Corporate Governance Regulation* London: Routledge: 1-24.

- Van Apeldoorn, B. and L. Horn (2007) 'The Marketisation of European Corporate Control: A Critical Political Economy Perspective' *New Political Economy* 12(2): 211-235.
- Vickerstaff, S. and J. Thirkell (2000) 'Instrumental Rationality and European Integration: Transference or Avoidance of Industrial Relations Institutions in Central and Eastern Europe' *European Journal of Industrial Relations* 6(2): 237-251.
- Vliegenthart, A (2004) *Corporate Governance in Eastern Central Europe: The State of the Art Working Papers in Political Science* 2004/5.
- Vliegenthart, A and H. W. Overbeek (2007) 'Corporate Governance Regulation in East Central Europe: The Role of Transnational Forces' in: B. Van Apeldoorn, A. Nölke and H. W. Overbeek (Eds.) *The Political Economy of Corporate Governance Regulation* London: Routledge: 177-198.
- Wade, R (1996) 'Globalisation and Its Limits: Reports on the Death of the National Economy are Greatly Exaggerated' in: S. Berger and R. Dore (Eds.) *National Diversity and Global Capitalism* Cornell University Press.
- Yin, R (1994) *Case Study Research: Design and Methods* (2nd ed.) Beverly Hills, CA: Sage Publishing.