

# The Czech Republic from the Perspective of the Varieties of Capitalism Approach<sup>1</sup>

Lenka Klimplová

**Abstract:** *Modern capitalism is not singular. There are varieties of capitalism in the contemporary world. This paper aims to apply the Varieties of Capitalism approach developed by Hall and Soskice (2001) to the case of the Czech Republic and ascertain whether the Czech market economy is approaching a liberal or a coordinated ideal type defined by these authors. At the same time, such findings might provide an answer to whether the Varieties of Capitalism approach designed for advanced industrialized economies is fully applicable for the analysis of a post socialist country that underwent a complicated process of economic and institutional transformation.*

**Keywords:** *Varieties of capitalism, Market economy, Czech Republic.*

## Introduction

This article aims to investigate the contemporary market economy of the Czech Republic and tries to find an answer to this question: *Does the Czech Republic approach the liberal ideal type of market economy or the coordinated type as they have been defined by Hall's and Soskice's Varieties of Capitalism approach?*

Moreover, by ascertaining the market economy type of the Czech Republic this paper might also provide a response to whether Hall's and Soskice's Varieties of Capitalism approach, designed for advanced industrialized economies, is fully applicable for the analysis of a post-socialist country that underwent a complicated process of economic and institutional transformation.

## The Varieties of Capitalism Approach

The Varieties of Capitalism approach by Hall and Soskice (2001)<sup>2</sup> places in the centre of the analysis *firms*<sup>3</sup> and *their interactions and relationships* with other actors—employees, unions, other firms, investors etc. (in fixed ‘institutional settings’ of) a particular market economy, and focuses on choices made by companies on how to solve so-called coordination problems.

The authors concentrate on ‘five spheres in which firms must develop relationships to resolve coordination problems central to their core competencies’ (Hall, Soskice 2001: 6–7):

- *the industrial relations sphere*: concerning questions of how to ‘coordinate bargaining over wages and working conditions’ with labour forces, with organizations representing labour forces and with other employers as well,
- *the employees’ sphere*: dealing with the employer’s problems concerning a guarantee that ‘employees have the requisite competencies and cooperate well with the others to advance the objectives of the firm’,
- *the vocational education and training sphere*: within which employers deal with problems of ‘securing a workforce with suitable skills, while workers face the problem of deciding how much to invest in what skills’,
- *the corporate governance sphere*: regarding issues of access to finance from the employers’ point of view and issues of assurance of returns on their investments from the investors’ point of view,
- *the inter-firm relations sphere*, concerning the relationships of a company with other enterprises, both suppliers and clients.’

Solving these coordination problems by employers depends withal on the institutional settings, defined as ‘systems of rules that structure the courses of actions that a set of actors may choose’ (Scharpf 1997: 38), of particular political economies in which firms operate. However, Scharpf points out that ‘the concept of the “institutional setting” does not have the status of a theoretically defined set of variables that could be systematized and operationalised to serve as explanatory factors in empirical research’ (Scharpf 1997: 39). Nonetheless, this concept could be analysed through an explanatory framework of actor-centred institutionalism (Scharpf 1997). Thus, institutional settings, which affect actors’ behaviour and their interactions in a particular society, can be analysed right by means of the analyses of those actors and their interactions.

## Two Ideal Types of Political Economies

On the basis of how particular political economies resolve the coordination problems they face in these five spheres, Hall and Soskice (2001) distinguish between two types of political economies, liberal market economies (LMEs) and coordinated

market economies (CMEs) which ‘constitute ideal types at the pole of a spectrum along which many nations can be arrayed’ (Hall and Soskice 2001: 8).

‘In *liberal market economies* [LMEs], firms coordinate their activities primarily via hierarchies and competitive market arrangements. [...] Market relationships are characterized by the arm’s-length exchange of goods or services in a context of competition and formal contracting. In response to the price signals generated by such markets, the actors adjust their willingness to supply and demand goods or services, often on the basis of the marginal calculations [...]

In *coordinated market economies* [CMEs], firms depend more heavily on non-market relationships to coordinate their endeavours with other actors and to construct their core competencies. These non-market modes of coordination generally entail more extensive relational and incomplete contracting, network monitoring based on exchange of private information inside networks, and more reliance on collaborative, as opposed to competitive, relationships to build the competencies of the firm.’ (Hall, Soskice 2001: 8)

CMEs are characterized by ‘networks of formal and informal linkages between firms, and between firms and other economic actors (such as banks and trade unions), which facilitate the supply of collective goods, [e.g., the supply of transferable skills, the provision of long-term finance, technological innovation, and industrial peace] involved in industrial production’ (Wood 2000: 376–377).

On the other hand, LMEs do not involve a ‘comparable level of capital coordination, and in consequence are unable to supply similar collective goods’ (ibid.).

Hall’s and Soskice’s typology of Varieties of Capitalism is based on the argument that ‘the incidence of different types of firm relationship varies systematically across nations’ (Hall and Soskice 2001: 9). In some political economies, firms more often use ‘non-market modes of coordination’ to manage their activities, whereas in others, firms tend to use ‘market modes of coordination’ instead (ibid. 38). It is conditioned by a level of institutional support for a particular political economy available either for a market, or non-market mode of coordination. ‘In any national economy, firms will gravitate toward the mode of coordination for which there is institutional support.’ (ibid. 9)

At this point, it is good to mention a concept of institutional complementarities of which the basic idea is: In political economies which support a non-market mode of coordination in one of those five spheres, one can suppose the non-market mode of coordination dominates in other spheres too, and on the contrary, in political economies where there is institutional support mainly for a market mode of coordination in one sphere, it is supposed to dominate the market mode of coordination in the other spheres because of fixed institutional settings.

## Not Only Two Ideal Types

Despite the fact that the ideal types and their empirical examples of USA (LME) and Germany (CME) presented by Hall and Soskice (2001) have shown two totally different and clearly identifiable tendencies in how firms – influenced by institutional settings of the particular political economy – solve coordination problems, the reality is not black and white. In reality it is possible to find significant variations even within these two types (Hall and Soskice 2001).<sup>4</sup> It is important to be aware of it, however, that ‘it can be fruitful to consider how firms coordinate their endeavours and to analyse the institutions of political economy from a perspective that asks what kind of support they provide for different kinds of coordination’ (ibid. 33).

Why would it be interesting and even important to determine whether a particular national political economy approaches the liberal *or* the coordinated ideal model of market economy? For instance because different institutional settings of the different national economies cause systematic *differences in employers’ strategies and preferences concerning for example public and social policy, and especially labour market policy* (Hall and Soskice 2001, Wood 2000). The Varieties of Capitalism approach emphasizes the significance of social policy to employers and their important role in the development of welfare states and in contemporary social policy-making.<sup>5</sup> Knowledge of whether the Czech Republic is a liberal or a coordinated market economy can then be useful for further analyses concerning employers and various social policy issues.

## Methodology

Several indirect indicators coming out from theoretical ideal types were chosen to ascertain whether the Czech Republic is closer to LME, or to CME. Indicators are divided according to the spheres in which firms have to resolve their coordination problems; however, this paper focuses most especially on three spheres – the industrial relations sphere connected together with the employees’ sphere, and the vocational education and training (VET) sphere.<sup>6</sup> Coming from the concept of institutional complementarities we suppose that if coordination problems in these three of five spheres tend to be solved in a particular mode (liberal or coordinated one), coordination problems of the other spheres will tend to be solved in the same mode as well.

**Table 1: Indicators and Their Values (Coordinated versus Liberal Market Economies)**

	<b>Indicators</b>	<b>Coordinated market economies</b>	<b>Liberal market economies</b>	
<b>Industrial Relations and Employees' Spheres</b>	trade union density	high	low	
	employer organization density	high	low	
	collective bargaining coverage	high	low	
	workplace representation	high	low	
	degree of bargaining centralization	high	low	
	dominant level of collective bargaining	national or sectoral	company	
	power of trade unions	strong	weak	
	workers' participation in firm	significant	weak to non-existent	
	salaries in firms in one industrial sector	similar	various	
	a way of influencing of inflation	wage bargaining	macroeconomic policy and market competition	
	consulting of hiring and firing with employees' representatives or trade unions	mainly compulsory	not compulsory	
<b>VET Sphere</b>	job contracts	long-term (or for indefinite period)	short-term (or for definite period)	
	rigidity of employment index	high	low	
	Skills	specific (company- or industry-specific)	general	
	vocational training	employer cooperation	formal education	
	employer association (or trade union) supervising industry vocational training system and negotiating the contents of such training	mainly yes	mainly no	
	proportion of enterprises providing continuing VET	high	low	
	type of retraining	targeted/specific	general/non-specific	
	<b>Corporate Governance Sphere</b>	accessibility of firm's confidential information to investors	mainly yes	mainly not
		investors' incentives to put their money in a particular company	the company's long-term reputation	current earnings and outcomes of the company
	<b>Inter-Firm Relations Sphere</b>	diffusion of new technologies	a cooperation among firms in one industry sector (research institutes etc.)	free fluctuation of engineers and scientists among firms
		proportion of investments in research and development field done by business enterprise sector from total amount of investments	high	low
level of coordination (composite indicators)		high	low	

**Sources:** Adapted from Hall and Soskice 2001, Crowley 2006.

In July and August of 2007, a questionnaire survey was carried out. Employers' representatives and people dealing with issues of firms, who are considered as experts able to provide a qualified view into the studied topic, were asked for their expert opinion by filling out a questionnaire designed on a modified Likert scale. It consisted of 14 items and each of these items included two opposed statements with a 7-point scale between them. The experts were asked to choose on this scale the degree to which of these statements – in their opinion – the Czech reality approaches. Besides this rating, the experts had the possibility to add their own comments to each of the items. The sampling of experts was non-random with a purpose to select cases that are especially informative. From 50 experts,<sup>7</sup> 15 have answered and provided us with their qualified view about the study issue.<sup>8</sup>

Besides the presented survey, analyses of secondary data (statistical data and several official documents) are used.

### **The Czech Republic Sphere by Sphere**

Ahead of analysing the contemporary situation of the Czech market economy a brief look back to the past might be helpful.

Before 1989, there was no free market in Czechoslovakia. The government was 'the major coordinator of the economy through extensive public ownership of resources, complete control over the issue of money and the direction of investment' (Lane 2007: 20). Such governmental controls strongly influenced employment levels, wages and divisions between personal and collective spending. Central planning before 1989 entailed an almost rigid labour market with minimum unemployment levels (officially unemployment did not exist), nearly universal union membership, widespread and obligatory collective agreements 'though rendered almost meaningless by central-setting of wages by planners' (Crowley 2006: 7). Although wages were relatively low, social benefits for workers were often very generous and social inequalities were marginal (*ibid.*).

The fall of Communism in 1989 brought significant changes for the whole society of Czechoslovakia. The major systemic change was 'the removal of the dominant Communist Party and its replacement by democratic forms and a move to markets instead of centralized planning' (Lane 2007: 13). Economic transformation was largely influenced by a neo-liberal policy focusing on a strict separation of market and state (Baláz 2006, Lane 2007, Myant 2007, McDermott, 1997 etc.) and by a 'policy troika of liberalization, stabilization, and privatization' (Rutland 1997: 265). Nevertheless, the authors point out that this economic transformation designed from the top neglected transformation of institutions. Institutional alteration thus was falling behind economic alteration (Baláz 2006, Rutland 1997). 'Societies do not consist of a set of discrete institutions connected according to some sort of blueprint [...] they

evolve over time [...], and consist of a complex of social practices whose character and interrelationship varies from case to case' (Rutland 1997: 278). Therefore, it was not possible to transform institutions immediately. Some opposed approaches, then, emerged against each other – a neo-liberal agenda highlighting an unregulated free market versus a 'social-democratic' approach that agreed with a market economy but one that recognized social interests.

The course of Czech socio-economic transformation has been described in detail by many authors (e.g. Myant 2007, McDermott 1997 etc.). For the purpose of this paper it is not important to repeat it once again. Nevertheless, it is important to be conscious of the fact that the institutional settings of the Czech market economy have been considerably transformed during the last 17 years and the contemporary situation, which is analysed below, might be partly affected by the passed transformation process.

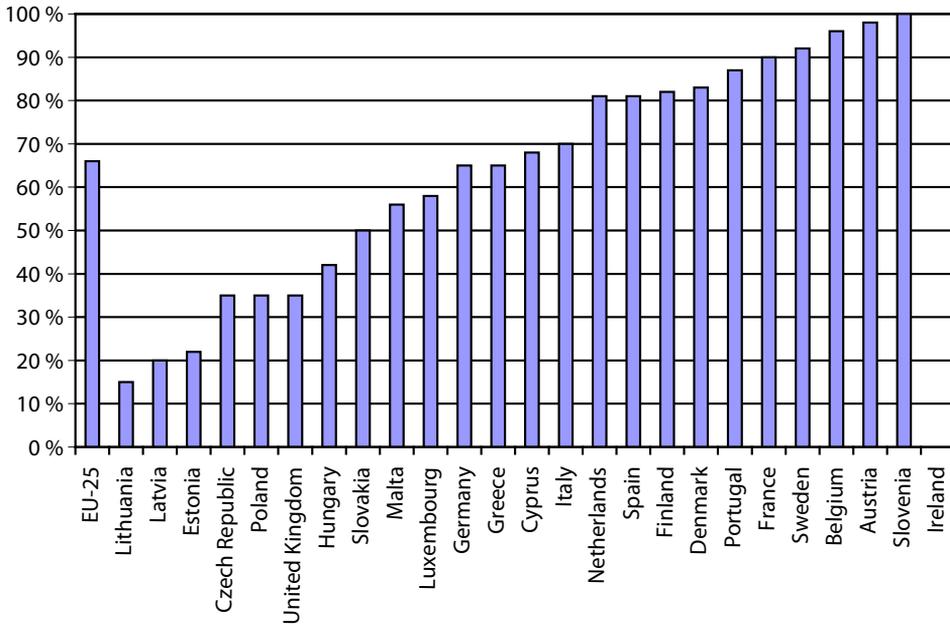
Let us have a look now at the contemporary Czech market economy by means of its actors and constellations for their interactions, sphere by sphere.

### **The Sphere of Industrial Relations and the Employees' Sphere**

The sphere of industrial relations concerns problems of how to coordinate bargaining over wages, hiring and firing of employees, working conditions etc. between employers and their employees, or representatives of employees, i.e., employees' councils, trade unions. The employees' sphere refers to a firm's internal structure, for example to which extent the management of a firm can make decisions, e.g., about hiring and firing without consulting with employees' representatives.

One of the most basic measures of labour's strength, and 'an important dimension on which liberal and coordinated market economies are said to differ' (Crowley 2006: 8) is *the trade union power* and *its density*. After compulsory union membership before the year of 1989, the membership rate dropped sharply and trade unions 'have lost much of their political influence, membership and social base' (Török 2006: 3). Currently, the position of unions varies in the Czech Republic. The experts concur that the influence of trade unions is significant in big enterprises, e.g., Škoda Auto, whereas the role of unions in medium and small companies is very weak. The percentage of union members from the total amount of labour forces (trade union density) is only 22 % in the Czech Republic, an even lower rate than in the United Kingdom (as the representative LME) where it is 29 % (Carley et al. 2007). *Collective bargaining* covers only 35 % of the labour force (see Graph 1).

**Graph 1: Collective bargaining coverage**

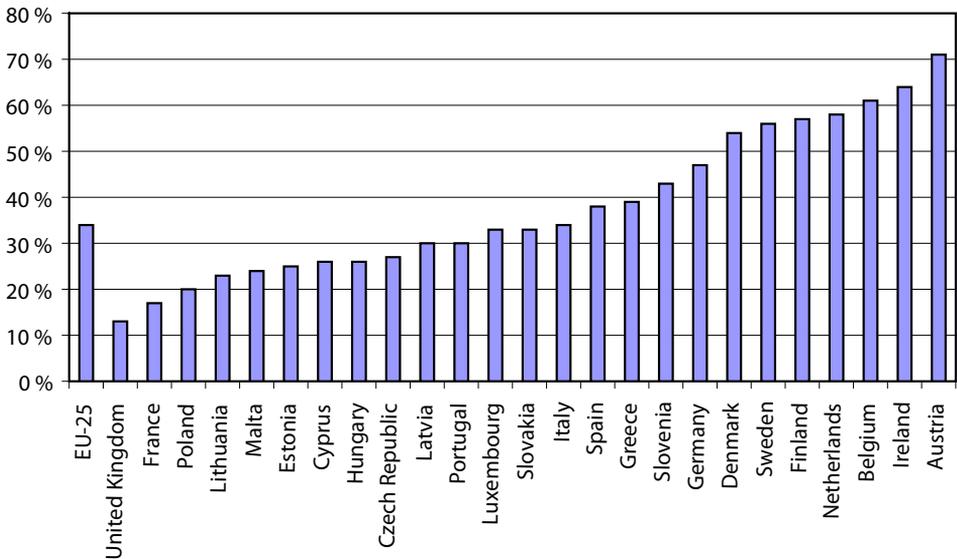


**Source of data:** Carley, Weiler, Newell (2007).

**Note:** No reliable data for Ireland.

Significant information seems to be at the level where collective bargaining is carried out. The national and sectoral levels imply CME, whereas the company level of collective bargaining indicates LME (Crowley 2006). The authors observe that the degree of *bargaining centralization* is rather low in the Czech Republic in comparison with the EU-25 countries (see Graph 2) and company agreements predominate (EIRO 2007, Knell and Srholec 2007).

**Graph 2: Degree of bargaining centralisation**



Source of data: Carley et al. 2007.

Another important indicator of coordination mode is *employer organization density* as a percentage of companies organized in an employer association. The Czech Republic with the rate of 32 % is noticeably under the average of the EU-25 countries, which is 58 % (Carley et al. 2007).

*Workplace representation* implies the position of employees in an internal structure of a firm. 'In the communist period, several eastern European countries had worker councils, although, as with collective bargaining, these were often quite formal in nature' (Crowley 2006: 16). The contemporary situation is as follows:

'In order to provide all employees with a right to information, consultation, and participation in line with EU norms, from January 2001 – in connection with a fundamental revision of the Labour Code – enhanced provisions were introduced for employee representatives. Following a compromise agreement with trade unions, these provide for the establishment of an institutional form of employee councils in companies without workplace trade union organisations. This provision clearly differs from the dual representation systems in some other European countries. Under the new law a union organisation and a works council cannot co-exist in the same establishment. Works councils can operate only if there is no union. Even an established works council must cease to function if a trade union organisation starts.

Work councils are not entitled to collective bargaining so they cannot conclude collective agreements. So far there are only a few works councils.' (EIRO 2007: 5–6)

The experts have confirmed the non-existence of ‘councils of employees’ as well. The experts who concede the existence of employees’ councils, however, remark that power of such councils is very weak.

In spite of these facts, the comparative indicator of workplace representation provided by Carley, Weiler and Newell (2007) seems to be relatively high – its rate is 44 %. Nevertheless, it is again under the average of EU-25 (53 %).

All indicators analysed so far imply the LME approach to resolve coordination problems. However, there are more indicators, which need to be analysed. One of them is whether differences in wages in one industrial sector indicate that wages are negotiated across a sector (similar wages imply CME), or if they are determined by the market (different wages imply LME). Most of experts incline toward the opinion that ‘salaries of workers in similar working positions vary from firm to firm in one industrial sector’. However, the experts observe that differences in wages are determined by region as well: ‘Differences are not huge in one industrial sector in one region but in the same sector in other region wages vary considerably.’ – ‘Wages vary particularly according to who the investor is and which region it is in.’ Thus, it seems that negotiation of wages is not a universal rule spread across all sectors but rather an individual agreement among managers in one region.

There is another question connected with the issue of wage negotiating – *the way inflation is determined*. In LMEs, inflation is controlled mainly by macroeconomic policy and market competition, whereas in CMEs wage arrangements resulting from coordinating negotiations contribute to reducing the inflationary effect as well. The experts concur that wage negotiations so far do not determine the inflationary rate in the Czech Republic, and wage increases do not result in growth of the inflationary rate, which implies the LME type.

On the other hand, such an unequivocal tendency toward LME appears not to be confirmed by experts’ opinions concerning labour market flexibility (difficulties in hiring and firing of employees, predominating types of contracts). In the experts’ point of view, ‘flexible hiring and firing of employees that could respond to changing market conditions is significantly limited by legal regulation (notice period, etc.) or by other impediments (collective agreements etc.).’

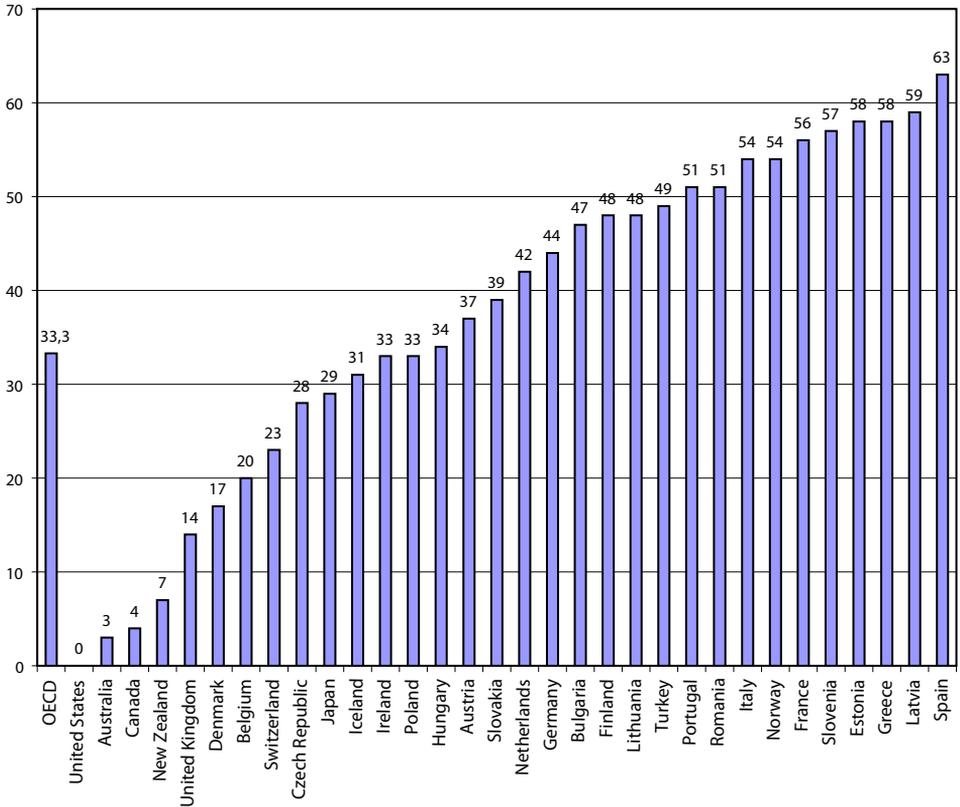
The Labour Code of the Czech Republic (Zákoník práce, 2006) strictly regulates the reasons that entitle employers to dismiss employees. A notice period (period for announcement of firing) is 2 months for both sides – for an employer and for an employee as well. An employer is supposed to discuss firing in advance with union representatives, which the experts consider one of the labour market problems in the Czech Republic.

Such a policy of relatively strong employment protection is reflected by *a predominance of long-term job contracts* as well. Experts state that long-term contracts (or contracts for an indefinite period) are more common than short-term contracts

(or contracts for a definite period). The Labour Code ordains that the maximum period for a job contract with a definite period (or for prolonging of a contract with a definite period) with the same employer is 2 years.

In spite of these regulations limiting the flexible hiring and firing of employees that could be a response to changing market conditions, the Czech economy seems to approach LMEs according to *the employment rigidity index* constructed by the World Bank (see Graph 3).

**Graph 3: Rigidity of Employment Index in Some OECD and EU Countries**



**Source of data:** World Bank (2007).

Summarizing the findings concerning the sphere of industrial relations and the employees' sphere, one can see a tendency to LMEs rather than to CMEs. Even though the experts declare that employment protections (regulations concerning employment) are quite restrictive in the Czech Republic, the international comparison shows that the Czech Republic belongs among the countries with a relatively low employment rigidity index, and it means it falls among quite liberal countries such as

the United States, the United Kingdom, and Canada. The other indicators presented above point to this inclination toward LMEs as well.<sup>9</sup>

### The Vocational Education and Training Sphere

It is not a simple issue to find evidence concerning labour force skills in a particular economy. Statistical data proving the predominance either of general skills or of specific skills do not exist. Neither do the experts provide an explicit answer regarding this issue. However, the responses tending to the opinion that *'highly specialized labour forces predominate in the Czech Republic'* are slightly more common.

It seems that the base for vocational education and training (VET) is provided by institutions of formal education rather than by employers, which would imply the LME's approach. Crowley notes that employers in eastern European countries have shown little interest in coordinating their efforts regarding skills training, and a consequence is an 'emerging skills mismatch in the labour market' in eastern central Europe, for the reason that the education system, lacking information on companies' needs, is not training the right kind of workers (Crowley 2006: 15). 'This is precisely the type of shortcoming the coordinated model of skills training is designated to alleviate.' (ibid.) The Czech experts confirm such findings as well. The Czech market's lack of apprentices in some special branches (welders, needlewomen, metalworkers, construction workers, etc.) and companies that lack skilled workers have to employ foreigners (mostly from Eastern Europe).

Despite such a declared 'mismatch' in the labour market when labour force skills do not suit employer demands, there have been some attempts to harmonize the content of VET with labour market needs by the representation of social partners on so-called 'field groups' (Cedefop 2005: 16). Such groups were formed in 1998 and they were supposed to contribute 'to the identification of objectives and the content of VET' (ibid.). The role of enterprises in VET is supposed to be advisory and decision-making. Enterprises should take over responsibility for the 'planning and implementation of training in companies (collective agreements) [and] cooperation between schools and companies' (ibid. 17). At the sectoral level, social partners should take over responsibility for the 'formulation of general frameworks for providing continuing training in companies [and] cooperation in the development of framework curricula' (ibid.). However, the Cedefop report concedes that 'project implementation suffers from problems relating to social dialogue, most importantly to low levels of motivation on the part of social partners and missing legislation' (ibid. 16). Thus, 'field groups' seem not to work optimally in practice.

Responses of the experts regarding the issue of *an operation of employer associations or trade unions coordinating training of employees of the particular sector* differ. Some kind of cooperation in this field is mostly affirmed by the representatives of

professional unions. One of them confirms the formation of sectoral councils for VET mentioned in the Cedefop report (2005). Such councils should determine the minimum level of education and skills for a certain profession. On the other hand, the experts of the Czech Business Chamber and other institutions who have evaluated the economy as a whole not only particular sectors state: *'employer associations or trade unions of particular industrial sector coordinating training of employees of this sector do not exist in the Czech Republic'*. At the same time, they remark if such associations exist, they are very weak, or they work only in big enterprises, e.g., Škoda Auto.

What about the issue of *employees' willingness to make investments (time, money) in firm or industry specific skills*? The experts are not unified in their responses to this question either. While 4 experts inclined toward the opinion that employees are not ready to make such investments, 8 experts tended toward the contrary opinion.<sup>10</sup> The differences seem to be in the size of enterprises. As one of the experts observes, the biggest problem regards self-employed persons or employees of small firms (2–10 employees) who are not willing to invest in their vocational education until new technologies and changed market conditions force them to do it. On the other hand, in big enterprises employees seem to be more willing to participate in continuing VET because they believe their investments in specific skills are at least partly protected by collective agreements made by labour unions. Nonetheless, the experts point out that employees are willing to take part in educational courses predominantly when employers pay for such courses, and only seldom they are enthusiastic about doing so when they have to pay for them by themselves.

The official documents of the Czech Republic regarding education, *National Programme for the Development of Education in the Czech Republic* (Bílá kniha 2001) and *Strategy for Human Development in the Czech Republic* (Strategie... 2003), have suggested implementing some financial and non-financial incentives for employers to make their spending on education higher and more effective, and for employees as well, to motivate them to take part in educational courses. According to the findings of these documents, expenditures of enterprises in the Czech Republic on continuing VET of their employees are considerably lower than in other developed countries. Enterprises' expenditure in this field actually has not reached half the comparable spending of western European firms (Bílá kniha 2001).

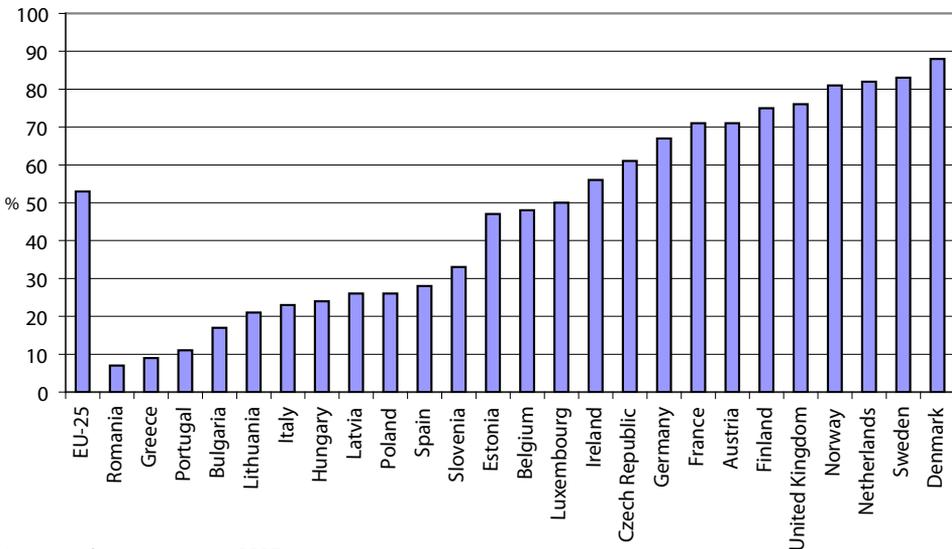
Considering these issues of the VET sphere, the findings would support the statement that the Czech market economy is approaching the liberal type. However, exact statistical evidence confirming the experts' opinions is missing. Although Eurostat (2007a) provides some indicators concerning education and training, most data are aggregate, and to answer the research question it would be necessary to analyse such specific issues as predominant type of skills or investments of enterprises in company- or industry-specific skills, data that are not available.

Nevertheless, we elaborate at least one aggregate indicator concerning the VET sphere – *the proportion of enterprises providing continuing VET*. We come from a pre-supposition that employers are willing to invest in employees' education when they expect their investments are secure and employees will not be poached by another company after finishing the training (it implies CME). Conversely, where employers are not sure about it, they do not provide continuing VET (implying LME). Graph 4 demonstrates what the reality looked like for several EU countries in 1999.<sup>11</sup>

The Czech Republic, with 62 % of enterprises providing continuing VET, has belonged to countries, which have been above the average of EU-25 countries (53 %). This would suggest a conclusion that the Czech Republic has been, according to this indicator, tending toward CME. But there is one puzzling fact – the United Kingdom, as a traditional LME representative, has got an even higher proportion of enterprises providing continuing VET than the Czech Republic. Due to a lack of information about the methodological background by which Eurostat constructed this indicator and obtained such values, we can only speculate as to why the United Kingdom is, according to this indicator, among the countries with 'strong industry-level training systems' (Knell and Srholec 2007: 55) as the coordinated Scandinavian countries are. One of the explanations could be the impact of Blair's governing and his measures against unemployment, for instance the New Deal, supporting, among others, subsidized employment (probably each of the newly-employed needs to be trained first of all).

Despite this exception, it seems that the rate of enterprises providing continuing VET in the Czech Republic approaches the CME countries' values.

**Graph 4: Enterprises providing continuing vocational education and training courses as % of all enterprises (in 1999)**



Source of data: Eurostat (2007a).

Besides analysing the VET of employees, another useful indicator of this sphere could be the *retraining of the unemployed* as a prospective labour force. Two main types of such retraining have been developed:

- ‘specific (targeted) – i.e. a change of the existing qualification [...] mostly based on existing or anticipated labour market needs, and often related to a specific job offer;
- non-specific – i.e. focusing on enhancing the employability of individuals [...] by means of the acquisition of knowledge commonly required by the labour market.’ (Cedefop 2005: 37)

According to the Cedefop report ‘most people take part in specific retraining, i.e., designed to fulfil skills shortages in the labour market. However, the proportion of non-specific and complementary retraining courses has been rising (some 30 %)’ (Cedefop 2005: 37). Specific retraining targeted to the needs of particular companies would imply coordination between enterprises and employment offices, possibly with other partners (organizations providing training etc.). This indicator implies that the Czech Republic belongs to CME.

The conclusion regarding the sphere of education and vocational training is not as clear as it was for the first two analysed spheres. Although, for instance, formal education probably predominates over education provided by enterprises, and employer associations mostly do not coordinate (negotiation about contents etc.) to support VET of a particular industrial sector (and thus, these indicators point to LME’s approach), some activities signalling a non-market mode of coordination have appeared as well – e.g., ‘field groups’ as an example of attempts to make VET more coordinated and linked to labour market needs, the predominance of specific retraining targeted to enterprises’ demands, the proportion of enterprises providing continuing VET among EU countries.

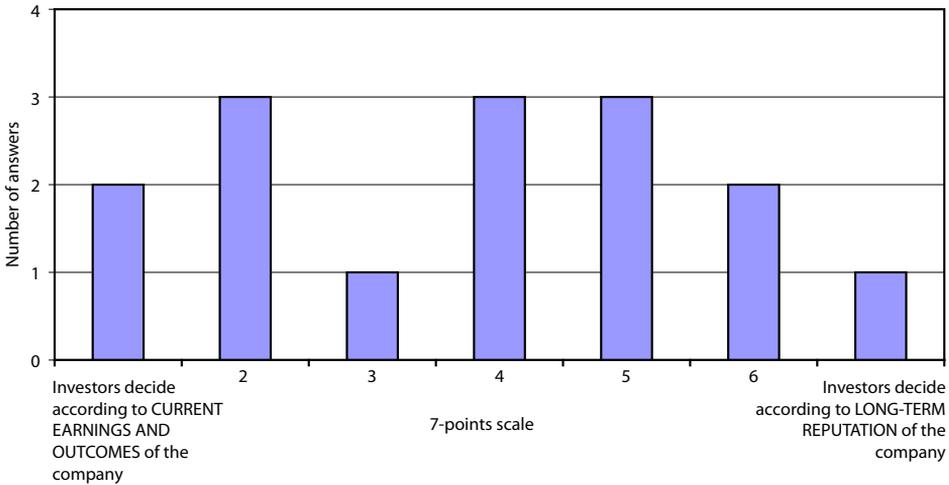
## **The Corporative Governance Sphere**

The corporative governance sphere regards the issues of access to finance from the employers’ point of view, and at the same time the issues of assurance of returns on their investments from the investors’ point of view. In CME investors have access to confidential information about particular firms thanks to membership in business networks or associations, and as a result they can decide about investments on the basis of their private knowledge and the long-term reputation of the firm. In LMEs, on the contrary, investors are not provided with such confidential information about companies, and their decision to invest in a particular firm is in most cases based on current earnings and outcomes of the firm.

The following graphs 5 and 6 and corresponding comments show how this issue looks from the point of view of the experts in the Czech Republic.

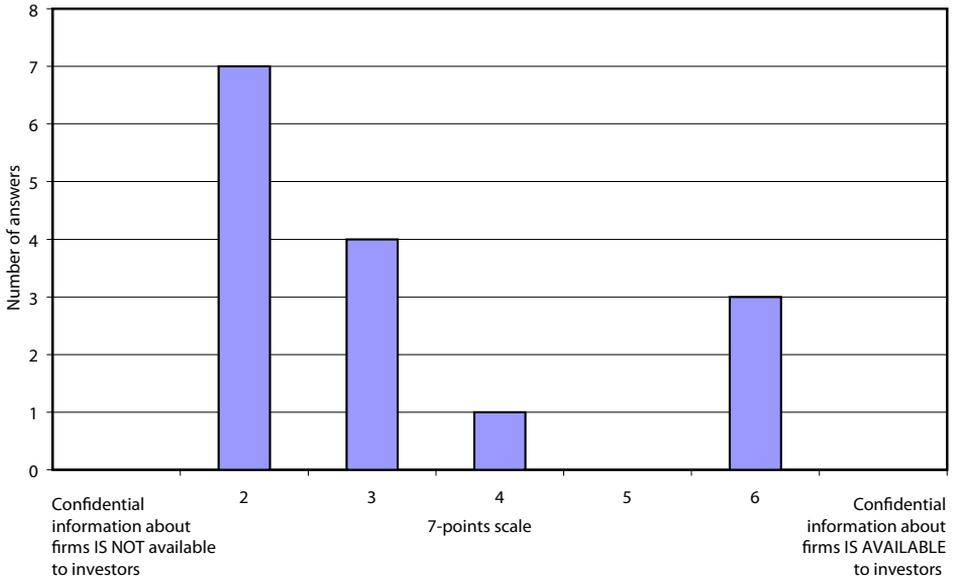
Graph 5 does not, again, show any explicit answer. The experts do not concur as to whether investors decide to invest in a particular firm according to current earnings or long-term reputation of that firm. Nonetheless, graph 6 is not so ambiguous – the experts point out that *investors are not provided with confidential information about firms*, and again it implies the LME approach. There is, however, a puzzling fact. In their comments, some experts remark that although official information is not easily available, there are some ‘other channels’ by which private information about firms is disseminated among involved actors. We may assume that those ‘other channels’ could be some relic of the socialist approach to information sharing, and thus some kind of unofficial coordination has continued.

**Graph 5: Distribution of experts’ responses concerning investors’ incentives to put their money in a particular firm (7-points scale)**



**Source of data:** Own questionnaire survey.

**Graph 6: Distribution of experts' responses concerning accessibility of firm's confidential information to investors (7-points scale)**



**Source of data:** Own questionnaire survey.

## The Inter-Firm Relations Sphere

The inter-firm relations sphere concerns the relationships of a company to other enterprises, both suppliers and clients. We focus on the example of how companies solve coordination problems regarding new technologies and innovation diffusion. The assumption drawn from the Varieties of Capitalism approach is that this problem is usually solved by inter-company cooperation in CMEs, for instance by means of research institutes from which new technologies are spread. To the contrary, in LMEs where such cooperation does not exist, enterprises rely on the advantages of the flexible labour market allowing, among other things, poaching of engineers and researchers. Licensing and the sale of innovations to effect technology transfer are extended in LMEs as well.

In the Czech Republic, both of these methods occur, and according to experts it is fifty-fifty.

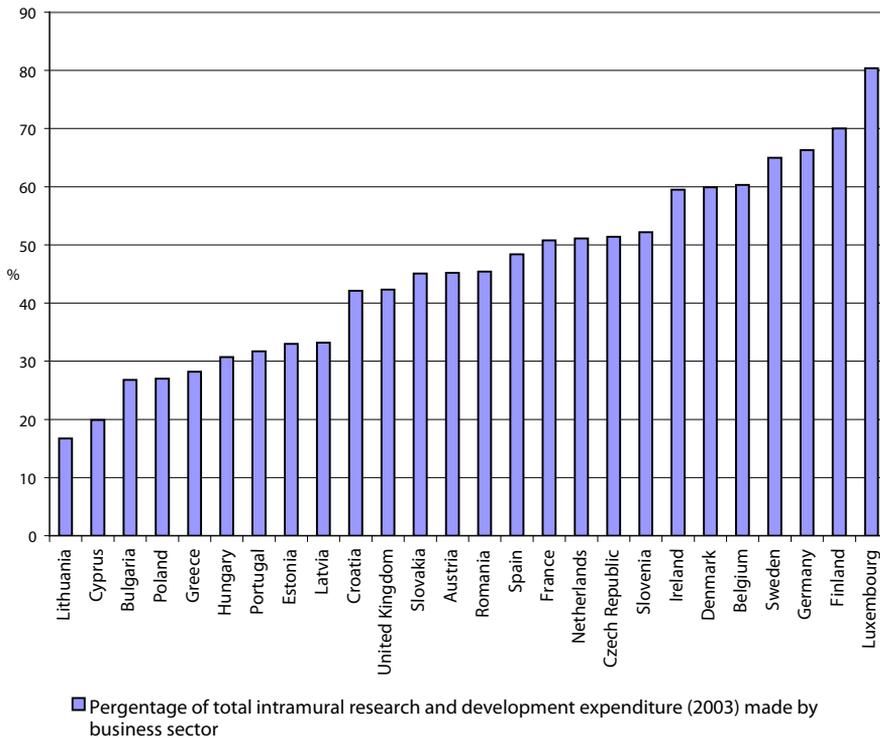
According to the ministerial report *The Conception of Innovation for Industry and Trade Sector for Period of 2005–2008* (Koncepce inovací 2004), the most important partners for innovation development of enterprises in the Czech Republic during the years 1999–2001 were their clients and customers, followed by companies from the business group, and suppliers. Much less importance was assigned to universities and state or nongovernmental research institutes. The least contribution for innovation development was attributed to competitive enterprises. However, cooperation

among enterprises, their clients, customers, suppliers and other companies from the same business group can be used as evidence for a CME approach in this sphere.

There is one more indicator regarding this sphere – *the proportion of investments in the research and development field by business enterprise sector from total amount of investments*. We assume enterprises in CMEs are more willing to invest in innovation research and development when they believe that their investments are protected – that their scientists and engineers will not be poached by other enterprises due to limited employment flexibility (long-term contracts with researchers, collective agreements etc.). In LMEs, on the other hand, where the flexibility is much higher and enterprises' investments in innovation and development are not so protected, the willingness of companies to invest in this field is expected to be lower.

Graph 7 provides a comparison of the proportion of investments in the research and development field by business enterprise sector from the total amount of investments (2003) in some European countries. The Czech Republic with a rate of 51,4 % belongs to countries with a somewhat higher level of this variable, although the traditionally-coordinated countries Germany and Sweden have their values nearly 15 % higher.

**Graph 7: Proportion of investments in research and development field by business enterprise sector from total amount of investments (in 2003)**



**Source of data:** Eurostat (2007b).

According to the findings presented for this sphere, we may say that the Czech Republic approaches a coordinated type of market economy, despite the fact that some liberal elements, e.g., fluctuation of professionals, researchers and engineers as a method of innovation and new technologies diffusion, appear as well.

### **Indexes of Coordination Level**

Furthermore, two composite indicators of coordination level are considered. Baláz's indicator (2006) is comprised of these elements: *the business environment*, *the labour market environment*, and *the financial market environment*. The indicator by Knell and Srholec (2007) includes *the index of social cohesion*, *the index of labour market regulation*, and *the index of business regulation*.

Positive numbers of these indicators indicate a high level of non-market coordination, which means CMEs. On the other hand, negative numbers indicate the market mode of coordination, i.e., LMEs.

The Czech Republic has the *positive values of coordination level by both these measures*. According to the composite indicator by Baláz (2006), the score of the Czech Republic is 0,8. Knell and Srholec (2007) state the coordination level of the Czech Republic is on their scale 4,4. It would imply that the Czech Republic belongs to *CME countries*.

However, following Knell and Srholec (2007) it has to be pointed out that the composite indicator does not include information about wage bargaining. Therefore some CME representatives, for instance, Scandinavian countries, have lower levels of composite coordination index than the Czech Republic (it means they would approach the liberal type). Furthermore, considering previous findings about the industrial relations sphere including wage bargaining and other indicators, the Czech Republic may move closer to the liberal type.

Is the Czech Republic more of a liberal or coordinated market economy, then? Table 2 summarizes the presented indicators with their values in the case of the Czech Republic.

**Table 2: Indicators and Their Values in the Case of the Czech Republic**

	Indicators	Coordinated market economies	Liberal market economies	Note
Industrial Relations and Employees' Spheres	trade union density	high	low	*
	employer organization density	high	low	*
	collective bargaining coverage	high	low	*
	workplace representation	high	quite low	*
	degree of bargaining centralization	high	low	*
	dominant level of collective bargaining	national or sectoral	rather company	
	power of trade unions	strong	weak	in small and medium firms weak, in big enterprises strong
	workers' participation in firm	significant	weak to non-existent	'councils of employees' are not common
	salaries in firms in one industrial sector	similar	various	differs rather regionally
	way of influencing of inflation	wage bargaining	macroeconomic policy and market competition	
	consulting of hiring and firing with employees' representatives or trade unions	mainly compulsory	not compulsory	
job contracts	long-term (or for indefinite period)	short-term (or for definite period)		
rigidity of employment index	high	low	in comparison with OECD and EU countries	
Vocational Training and Education Sphere	skills	specific (company or industry)	general	according to available information is not possible to say exactly
	vocational education and training	employer cooperation	formal education	
	employer association (or trade union) supervising industry vocational training system and negotiating the contents of such training	mainly yes	mainly not	
	proportion of enterprises providing continuing vocational training	high	low	*
	type of retraining	targeted/specific	general/non-specific	
Corporate Governance Sphere	accessibility of firm's confidential information to investors	mainly yes	mainly not	official information are not easily available, however, there are other unofficial 'channels'
	investors' incentives to put their money in a particular company	the company's long-term reputation	current earnings and outcomes of the company	according to available information is not possible to say exactly

	Indicators	Coordinated market economies	Liberal market economies	Note
Inter-Firm Relations Sphere	diffusion of new technologies	a cooperation among firms in one industry sector (research institutes etc.)	free fluctuation of engineers and scientists among firms	both means are used, however the ministerial report (Koncepce inovací 2004) mentions significant cooperation among enterprises, their clients, customers, suppliers and other companies from the same business group
	proportion of investments in research and development field done by business enterprise sector from total amount of investments	rather high	low	*
Coordination level	level of coordination (composite indicator by Baláz)	high	low	a value 0,8 – positive number implies CMEs, however, in a comparison of some chosen countries the Czech Republic is in the middle
	level of coordination (composite indicator by Knell and Srholec)	rather high	low	a value 4,4

**Note:** The values for the Czech Republic are bold.

\* in comparison with EU-25 countries

The employed indicators do not provide an explicit answer whether the Czech Republic is a coordinated or a liberal market economy. A simple summation of the indicators for each of the ideal types would suggest the Czech Republic is closer to LME. However, the indicators do not have the same weight. One can see that some of them overlap and reinforce each other (mainly in industrial relations and employees' spheres), representation of indicators in all spheres is not equivalent, and the indexes of the coordination level as composite indicators comprised of more variables imply a tendency toward the coordinated market economy.

Moreover, the analyses of some official documents regarding the investigated topic has been presented as well (Zákoník práce 2006, Cedefop 2005, Bílá kniha 2001, Koncepce inovací 2004 etc.) and not all findings based on it would support the statement that the Czech Republic is LME.

### Conclusion: Liberal, or Coordinated?

'...following the dichotomy used in the varieties of capitalism literature, the new member states [of the European Union], with the exception of Slovenia, are clearly more "liberal" than "coordinated"' (Crowley 2006: 27). Yes, that is true but only

when the sphere of industrial relations and partly the sphere of vocational education and training are analysed as Crowley has done.

As far as we have investigated, according to the indicators of all five spheres of the coordination problems, which Hall and Soskice (2001) have suggested in their *Varieties of Capitalism* approach, the answer to whether the Czech Republic is approaching a liberal or a coordinated market economy is not so clear. Behind Crowley's argument, there is a presumption that the concept of institutional complementarities is applicable to the new European Union member states as well. However, it seems that in the case of the Czech Republic this concept is not appropriate. As Myant observes, 'capitalism in the Czech Republic lacked the stability provided by complementary features that can support each other' (Myant 2007: 119).

The indicators employed in this study, thus, do not display an obvious tendency towards any of Hall's and Soskice's ideal types. The sphere of industrial relations and the employees' sphere seem to be strongly influenced by the economic transformation in 1990s, which was driven by a neo-liberal agenda and policy approach. Nevertheless, the relatively strong regulations – concerning, for instance, types of contracts or an obligation to discuss hiring and firing with trade unions etc. – reflect the social interests of other involved actors (employees, unions etc.) as well, and, thus limit the decision-making of employers and impede their responding flexibly to changing market conditions.

The indicators, applied to the sphere of vocational training and education, appear to be ambiguous as well. Some of them would imply the liberal approach; some others, on the other hand, signal a non-market mode of coordination.

Those few indicators we have provided for the spheres of corporate governance and inter-firm relations point out a mixture of both types of market economy as well. It seems that, despite an official and declared liberal market course, the actors cooperate out-of-market somehow (unofficial 'channels' of sharing information, cooperation among enterprises, their clients, customers, suppliers and other companies from the same business group in innovation development etc.). This might be one of the consequences of the transformation of the Czech economy from socialist centralized planning to a market economy. As has been mentioned above, institutional alternation did not keep the speed and liberal direction of economic transformation and a restructuring of 'institutional settings' was strongly affected by different political and social interests (Lane and Myant 2007). Therefore there might be ambiguous findings pointing to both of these different ideal types in the discussed spheres, and within a particular sphere as well.

Hall's and Soskice's *Varieties of Capitalism* approach was developed by comparing advanced industrialized economies, and it seems to be a bit problematic to use this approach strictly without any additional explanatory comments in the case of the Czech Republic, precisely for the reason that the Czech Republic underwent

a transformation process and *so far* not all institutions have been altered in the same way.<sup>12</sup> One could assume a further adjustment of Czech institutions towards liberal principles due to the contemporary right-wing government and economic globalisation. However, it is just an assumption and it deserves further monitoring.

This paper was thought to be a first step of an investigation of employers' preferences toward social policy-making in the Czech Republic by ascertaining whether this country is more likely to use the coordinated or liberal market economy principles, in other words, the non-market or market mode of coordination. Despite such an ambiguous conclusion we have presented, the study has provided us with a basic conceptual framework and has given us insight into the investigated issue by secondary data analyses and experts' assessment. It is evident that a more comprehensive follow-up study is necessary in order to provide any concrete economic or social policy recommendations.

## Notes

- <sup>1</sup> This study was written with the support by the Ministry of Education of the Czech Republic – NPV II (Research project 2D06009, New social risks and the need to reform the labour market political regulation after accession of the Czech Republic to the EU. Monitoring and evaluation of needs.)' This paper is based on the Master's thesis defended at Dalarna University (Falun, Sweden) in September 2007 under the Master Program in European Political Sociology.
- <sup>2</sup> It should be remarked on this place that the Varieties of Capitalism approach is not only one. Hall and Soskice's approach has been criticized by some authors (for instance, Lane, Myant 2007) for the reason that their analysis considers only one feature of capitalist economies – the coordination process of firms. According to the critics, 'the industrial profile (high-tech, primary producers) exposure to the world economy, the "driving forces" (companies, classes, the state) of accumulation, the forms of innovation and education, as well as types of ownership and control provide other criteria' (Lane 2007: 18). For instance, authors as Amable (2003) or Coates (1999) include such criteria in their analyses of 'diversities' (Amable) or 'models' (Coates) of capitalism. However, the author has chosen to employ the approach developed by Hall and Soskice. There are two reasons for that. Firstly, we appreciate precisely this approach for its placement of firms into centre of analyses. Considering the possible follow-up of this study in direction of analysis of employers' preferences towards social policy in the Czech Republic, it is obvious why Hall and Soskice's firm-centered approach concerning employers' coordination problems has been picked out. Secondly, multi-criteria analyses suggested by other authors would be too demanding and exceed capabilities of this study.
- <sup>3</sup> Firms, companies, employers and enterprises are, for a purpose of this article, equipollent terms.
- <sup>4</sup> As example, the authors provide a comparison of Germany and Japan within CMEs ideal type (Hall and Soskice 2001).
- <sup>5</sup> Preferences of employers concerning labour market and social policies more generally are discussed in detail, for example, by Estevez-Abe, Iversen, Soskice (2001), Thelen (2001), Mares (2001, 2003), Swank and Martin (2001), or Martin and Swank (2004) etc.

- <sup>6</sup> These three spheres are chosen on the one hand because of easier availability of data concerning these spheres, and on the other hand because they focus on labour forces and labour market relations what are crucial for further intended investigations following-up this study. However, we present some indicators for the other two spheres as well.
- <sup>7</sup> 3 representatives of the head-office of the Czech Business Chamber; 28 representatives of regional offices of the Czech Business Chamber; 2 experts from the Employment Office dealing with employers, and 3 experts from other institutions recommended by an Employment Office expert; 14 representatives of particular professional unions.
- <sup>8</sup> Recoverability of questionnaires is only 30 %. Despite it, data gained by this survey is used for analysis because we assume these are the qualified expert opinions. However, we have to concede that the survey is not representative and comprehensive.
- <sup>9</sup> Nonetheless, it should be remarked that the solving of coordination problems in the sphere of industrial relations and the employees' sphere in big enterprises can differ from the solutions adopted by small and medium enterprises. Big enterprises can incorporate some of features of CME's coordination problem solving.
- <sup>10</sup> 3 experts have not provided any explicit answer.
- <sup>11</sup> More recent data are not available.
- <sup>12</sup> Baláž (2006) provides similar conclusions concerning the contemporary Slovakian political economy – on one hand the neoliberal agenda and an attempt to establish a specific (Anglo-Saxon) type of capitalism, on the other hand persisting informal institutions, imperfect markets with imperfect institutions generating imperfect combination of production factors.

## References

- Amable, Bruno (2003) *The Diversity of Capitalism*. Oxford: Oxford University Press.
- Baláž, Vladimír (2006) 'Politická ekonómia slovenského kapitalizmu: Inštitucionálna a evolučná perspektíva', *Politická ekonomie* 54, 5: 610–630.
- Bílá kniha (2001) *Národní program rozvoje vzdělávání v České republice*. Ministerstvo školství, mládeže a tělovýchovy. Available at: <http://www.msmt.cz/files/pdf/BilaKniha.pdf> (Accessed on 2 August, 2007).
- Carley, Mark; Weiler, Anni; Newell, Helen (2007) *Industrial Relations Developments in Europe 2006*. European Foundation for the Improvement of Living and Working Conditions. Available at: <http://www.eurofound.europa.eu/pubdocs/2007/34/en/1/ef0734en.pdf> (Accessed un 18 July 2007).
- Cedefop (2005) *Focus on Vocational Training and Education in the Czech Republic*. The European Centre for Development of Vocational Training. Available at: [http://www2.trainingvillage.gr/etv/publication/download/panorama/2207\\_en.pdf](http://www2.trainingvillage.gr/etv/publication/download/panorama/2207_en.pdf) (Accessed on 18 July 2007).
- Coates, David (1999) 'Models of Capitalism in the New World Order: the UK Case', *Political Studies* 47, 4: 643–660.
- Crowley, Stephen (2006) *East European Labour, the Varieties of Capitalism, and the Expansion of the EU*. Working Papers. The Council for European Studies at Columbia University. Available at: <http://www.councilforeuropeanstudies.org/pub/papers/Crowley.pdf> (Accessed on 21 July 2007).

- EIRO (2007) *Czech Republic. Industrial Relations Profile*. European Industrial Relations Observatory Online. Available at: <http://www.eurofound.europa.eu/eiro/country/Czech%20Republic.pdf> (Accessed on 18 July 2007).
- Eurostat (2007a) *Themes: Population and Social Conditions*. Eurostat. Available from: [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=0,1136184,0\\_45572595&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136184,0_45572595&_dad=portal&_schema=PORTAL) (Accessed on 25 July 2007).
- Eurostat (2007b) *Themes: Science and Technology*. Eurostat. Available from: [http://epp.eurostat.ec.europa.eu/portal/page?\\_pageid=0,1136250,0\\_45572555&\\_dad=portal&\\_schema=PORTAL](http://epp.eurostat.ec.europa.eu/portal/page?_pageid=0,1136250,0_45572555&_dad=portal&_schema=PORTAL) (Accessed on 25 July 2007).
- Estevez-Abe, Margarita; Iversen, Torben; Soskice, David (2001) 'Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State', in Hall, Peter A.; Soskice, David (eds.) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, pp. 145–183. New York: Oxford University Press.
- Hall, Peter A.; Soskice, David (2001) 'An Introduction to Varieties of Capitalism', in Hall, Peter A.; Soskice, David (eds.) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, pp. 1–68. New York: Oxford University Press.
- Knell, Mark; Srholec, Martin (2007) 'Diverging Pathways in Central and Eastern Europe', in Lane, David; Myant, Martin (eds.) *Varieties of Capitalism in Post-Communist Countries*, pp. 40–62. New York: Palgrave Macmillan.
- Koncepce inovací pro oblast průmyslu a podnikání na období 2005–2008* (2004) The Ministry of Industry and Trade of the Czech Republic. Available at: <http://download.mpo.cz/get/27441/28251/311516/priloha001.pdf> (Accessed on 30 July 2007).
- Lane, David (2007) 'Post-State Socialism: A Diversity of Capitalisms?', in Lane, David; Myant, Martin (eds.) *Varieties of Capitalism in Post-Communist Countries*, pp. 13–39. New York: Palgrave Macmillan.
- Lane, David; Myant, Martin (eds.) (2007) *Varieties of Capitalism in Post-Communist Countries*. New York: Palgrave Macmillan.
- Mares, Isabela (2001) 'Firms and the Welfare State: When, Why, and How Does Social Policy Matter to Employers?', in Hall, Peter A.; Soskice, David (eds.) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, pp. 184–212. New York: Oxford University Press.
- Mares, Isabela (2003) *The Politics of Social Risk. Business and Welfare State Development*. Cambridge: Cambridge University Press.
- Martin, Cathie Jo; Swank Duane (2004) 'Does the Organization of Capital Matter? Employers and Active Labour Market Policy at the National and Firm Levels', *American Political Science Review* 98, 4: 593–611.
- McDermott, Gerald A (1997) 'Renegotiating the Ties that Bind: The Limits of Privatization in the Czech Republic', in: Grabher, Gernot; Stark, David (eds.) *Restructuring Networks in Post-Socialism: Legacies, Linkages, and Localities*, pp. 70–108. Oxford: Oxford University Press.
- Myant, Martin (2007) 'The Czech Republic: From "Czech" Capitalism to "European" Capitalism', in Lane, David; Myant, Martin (eds.) *Varieties of Capitalism in Post-Communist Countries*, pp. 105–123. New York: Palgrave Macmillan.
- Rutland, Peter (1997) 'The Antinomies of Privatization in Eastern Europe', in Grabher, Gernot; Stark, David (eds.) *Restructuring Networks in Post-Socialism: Legacies, Linkages, and Localities*, pp. 266–283. Oxford: Oxford University Press.
- Scharpf, Fritz W (1997) *Games Real Actors Play. Actor-Centred Institutionalism in Policy Research*. Boulder: Westview Press.

- Strategie rozvoje lidských zdrojů v České republice* (2003) Available at: [http://www.esfcr.cz/files/clanky/1291/Strategie\\_RLZ.pdf](http://www.esfcr.cz/files/clanky/1291/Strategie_RLZ.pdf) (Accessed on 2 August 2007).
- Swank Duane; Martin, Cathie Jo (2001) 'Employers and the Welfare State. The Political Economic Organization of Firms and Social Policy in Contemporary Capitalist Democracies', *Comparative Political Studies* 34, 8: 889–923.
- Thelen, Kathleen (2001) 'Varieties of Labour Politics in the Developed Democracies', in Hall, Peter A.; Soskice, David (eds.) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, pp. 71–103. New York: Oxford University Press.
- Török, Ádám (2006) *In-depth Comment on the Varieties of Capitalism in the New Member States, as well as on the Key Issues Regarding Competition and Innovation*. Working Paper for the Lisbon Agenda Group (April 12, 2006). Available at: [http://www.mariajoaorodrigues.eu/files/5-ATorok\\_ReplyPaper\\_060412.doc](http://www.mariajoaorodrigues.eu/files/5-ATorok_ReplyPaper_060412.doc) (Accessed on 24 July 2007).
- Weiler, Anni (2005) *Quality In Industrial Relations: Comparative Indicators*. European Foundation for the Improvement of Living and Working Conditions. Available at: <http://www.eurofound.europa.eu/pubdocs/2004/61/en/1/ef0461en.pdf> (Accessed on 18 July 2007).
- World Bank (2007) *Doing Business Database: Employing Workers*. World Bank. Available at: <http://www.doingbusiness.org/ExploreTopics/EmployingWorkers/Default.aspx?direction=asc&sort=4> (Accessed on 31 July 2007).
- Wood, Stewart (2000) 'Labour Market Regimes under Threat? Sources of Continuity in Germany, Britain, and Sweden', in Pierson, Paul (ed.) *The New Politics of the Welfare State*, pp. 368–409. Oxford: Oxford University Press.
- Zákoník práce (2006) *Zákon České republiky, č. 262 ze dne 21. dubna 2006, Zákoník práce*. Ministerstvo vnitra ČR. Available at: <http://www.mvcr.cz/sbirka/2006/sb084-06.pdf> (Accessed on 30 July 2007).