Systematically Uncoordinated? The Czech Republic and Slovakia in the View of Varieties of Capitalism*

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Abstract: *Conflict or coordination are the most frequently used words describing the industrial relations in developed economies. What is the relationship between the biggest industrial actors in the former Czechoslovakia and is there any coordination? This paper tries to answer this question focusing on the coordination in the main economic spheres in the Czech Republic and Slovakia. The research is based on the analysis of statistical data and a survey in which a group of experts completed a questionnaire stemming from the Varieties of Capitalism approach. Almost 30 experts representing employers, trade unions and the state from both countries provided insight into the amount of coordination that exists among the main economic actors. Our findings not only undermine the recent classifications of the Central Europe in the Varieties of Capitalism literature, but also show a slightly different institutional setting of the industrial relations in these two post-communist countries. The main results of our research shows that there is an emerging pattern of 'systematic un-coordination' among the key spheres of the national economy as defined by Varieties of Capitalism. The authors conclude this article with a discussion regarding the results and limitations of their research.*

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Introduction

The post-communist countries of Central Eastern Europe are considered democratic with a market-oriented economy — a status which would have not been taken for granted two decades ago. However, these countries have neither the same political and economic institutions nor are they at the same stage of economic development. These, in turn, influence the economic growth and consequently performance in areas such as employment and innovations. This paper attempts to answer whether the activities of the economic actors and institutions are coordinated in the Czech Republic and Slovakia.

Our research assumes there is not just one form of capitalism that is same for all the developed countries. Different states have developed different institutions and distinct modes of production and cooperation. Based on the previous research we assume there are different paths to economic prosperity and none is superior to another. The main goal of our research is to identify what kind of coordination has evolved in the Czech Republic and Slovakia and investigate to what extent are the capitalist institutions complementary. In order to do so we used an innovative approach — an expert survey combined with secondary data (statistics) analysis.

Although there are several approaches to the varieties or models of capitalism in the recent literature (cf. Coates, 1999; Amable, 2003), the mainstream view is represented by Hall's and Soskice's (2001) approach of *Varieties of Capitalism* (hereinafter VoC). This study is based on the theoretical foundations of VoC.

The theoretical framework of *Varieties of Capitalism* and the position of Central Eastern Europe within the VoC framework, based on the most recent literature, are presented in the first section of this article. This is followed by a presentation of the methodology used and the results of our research. The analysis looks into peculiarities and specific institutional settings within the Slovak and Czech national economies which provide a more detailed insight into the issue. The last section discusses the findings and relates them to the debate on the issue. It undermines some of the accepted views in the literature and also poses some questions and challenges for future research related to the *Varieties of Capitalism* approach and its application to the Central Europe.

The *Varieties of Capitalism* Approach

The *Varieties of Capitalism* approach is rooted in new institutionalism which focuses on formal as well as informal institutions that shape and channel human behaviour (e.g. North 1990; Scharpf 1997; Peters 1999) and also strategic coordination of the economic actors. The VoC approach emphasizes that institutions play a key role in the organization of political economies and focus on firms and their interactions and relationships with other actors (employees, unions, other firms, investors etc.). The VoC approach places these actors in a fixed 'institutional settings' of a particular market economy, and concentrates on choices made by companies on how to solve so-called coordination problems.

The authors examine "five spheres in which firms must develop relationships to resolve coordination problems central to their core competencies" (Hall & Soskice 2001: 6–7). These are industrial relations, employees' sphere, vocational education and training, corporate governance and inter-firm relations. Solving coordination problems in the specified areas of daily interaction 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). Thus, institutional settings affecting the actors' behaviour can be analysed by investigating the actors and interactions in question.

Hall and Soskice introduced two cornerstones of the approach – the concepts of institutional complementarities and of comparative institutional advantages. "Two institutions can be said to be complementary if the presence (or efficiency) of one increases the returns from (or efficiency of) the other" (Hall & Soskice 2001: 17).[1] This is of a great importance to studies of comparative capitalism because "it suggests that nations with a particular type of coordination in one sphere of the economy should tend to develop complementary practices in other spheres as well." (Hall & Soskice 2001: 18) 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 also in other spheres.

On the basis of how particular political economies resolve coordination problems, the authors distinguished between two ideal 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 & Soskice 2001: 8). Different institutional arrangements are necessary to provide complementary incentives and constraints on the economic behaviour of the actors.

Liberal Market Economies are systems represented by relationships that are steered by market mechanisms. A perfect competition, formal contracts and the arms-length price/principle are typical elements of such a system. Firms rely on formal contracts and quick returns of investments. Capital is primarily raised by issuing shares of the company which are then sold on a stock exchange therefore reputation and current profits of firms are important. This requires flexible and deregulated labour markets and weak trade unions. Given this environment, wage bargaining tends to be decentralized and workers have incentives to invest their time and money into general and broadly applicable skills so that they can better find their place on the labour market (see Iversen & Stephens 2008; Estevez-Abe et. al. 2001, Ebbinghaus & Manow 2001, etc.). The education and training system is designed to accommodate the fluid labour markets and thus provide formal education is focused on general skills that are usable in many firms across industrial sectors. Technology transfer takes place usually through free movement, and occasionally poaching, of scientists and engineers from one company to other. Flexible labour markets and related laws facilitate such behaviour (Hall, 1999; Hall & Soskice 2001).

On the contrary, non-market and informal coordination dominates socio-economic relationships in *Coordinated Market Economies*. Firms resolve their everyday problems via strategic interaction with other actors (e.g. banks, unions, suppliers, costumers, etc.). In order to achieve the long-term equilibrium in such an environment, the supportive institutions (such as social dialogue, business networks, etc.) are needed. Firms in CMEs are not typically dependent on current profits or publicly available financial reports when it comes to fundraising and investments. Firms usually have access to capital which Hall and Soskice call "patient" in terms that the short-term ROI (return on investment) is not the primary objective (Hall & Soskice 2001: 22). The problem of raising capital is generally solved through a dense network of companies and investors within industries. Large industrial associations and extensive networks of firms and their suppliers, clients and other companies allow coordinating effective standard setting, vocational training, joint research, product development, etc. Since the companies are not sensitive to current earnings and the stock markets, they can focus on long-term investments, incremental innovation and research projects (see also Hall, 1999; Wood, 2001). This is, however, dependent on a legal and institutional environment that discourages hostile takeovers, poaching and that provides incentives for creating and maintaining networks, cross-shareholding and investments in specific skills (Hall & Soskice 2001).

The empirical examples of these ideal types — the USA as an example of a LME and Germany as a CME — illustrate how different public policies (products of political decisions) might be complementary to each other and thus increase the efficiency of the national economy as whole (Hall & Soskice 2001).

Hall's and Soskice's approach has been criticized for different reasons (Deeg & Jackson 2007; Lane 2007, etc.). Despite being heavily criticized the approach developed by Hall and Soskice became the mainstream point of departure in the debate on varieties of capitalism. The next chapter discusses the applicability of this concept, which was originally designed for advanced industrialized economies, in analysing the Central and Eastern European countries (with special focus on Slovakia and the Czech Republic) that underwent a complicated process of economic and institutional transformation.

Application of VoC in Post-Communist Countries of Central and Eastern Europe

Western Europe witnessed a debate on national diversities of capitalism in the 1990s (Berger & Dore 1996; Coates 1999), while Central and Eastern Europe was still building its institutions and coping with the communist legacy. The 2004/2007 EU enlargement crowned the societal transformation and attracted the attention of many scholars in the field of political economy. Investigating the "eastern capitalism" became more popular and systematic.

Attempts to look at the CEECs political economies through the VoC paradigm vary considerably in both form and a content — from single case studies (e.g. Klimplová 2007, 2009; chapters in Lane & Myant 2007; Frane, Primoz & Matevz 2009) to analyses encompassing tens of post-communist countries (Baláž 2006; Crowley 2006; Lane 2005; etc.).

However, applying the VoC approach to the CEE countries raises several issues concerning the institutional design of capitalism. Mainly, there were already several institutions (such as social dialogue, labour market institutions, etc.) in place before 1989, although as a part of the centrally planned economy their effective functioning might be questioned. One must not forget that trade unions, collective agreements, vocational education as well as different informal institutions, in terms of patterns of economic actors' behaviour, already existed. The transition to a market economy thus witnessed a combination of two processes. On the one hand, new institutions (e.g. financial markets, business laws, etc.) were to be built from scratch. On the other hand, many existing institutions had to be transformed or integrated into the new political and economic system. The contemporary state of the economies in the CEECs should, thus, not be taken for granted, but the process of transformation that the CEECs have undergone also needs to be reflected upon. Klimplová (2007), for instance, concluded that in the Czech Republic it seems to be a bit problematic to use this approach strictly without any additional explanatory comments precisely for the reason that the country underwent the transformation process and not all institutions have been altered in the same way. Therefore the core VoC concept of institutional complementarities seems not to be applicable in this case. As Myant also observed, "capitalism in the Czech Republic lacked the stability provided by complementary features that can support each other" (Myant 2007: 119).

Bearing this in mind, several scholars investigated the political economies of CEECs through the VoC perspective. Bohle and Greskovits (2007) based their analysis on the countries' approach on two opposing processes of transition: transformation of the economy from centrally planned to market oriented and transformation of the social protection of citizens. The authors argued that the eight new EU member states (the 2004 enlargement) developed at a different pace and grade of the institutionalization of the above-mentioned processes. Based on analysis of these processes they identified three types of capitalism in Central and Eastern Europe. *Neoliberal capitalism* with the typical features of low growth rates of industrial production, low level of complex product output and the strictest fiscal policy has developed in the Baltic States. The *Neo-corporatist type of capitalism* (e.g. Slovenia) is characterized by a high level of social protection and a relatively high share of complex exports. It is also "the least market-radical" type (Bohle & Greskovits, 2007: 462). Visegrad countries (including the Czech Republic and Slovakia), according to these authors, lie somewhere in between and are labelled as *embedded neoliberal* countries.

In his research Vanhuysse (2007) focused mainly on the position of trade unions in Central and Eastern Europe and related public policies. In his attempt to fit the new EU member states into the VoC framework he came to agree with the classification of Bohle and Greskovits (Vanhuysse, 2007: 508).

Knell and Srholec (2007) analysed three different types of institutional arrangements: (1) social cohesion; (2) labour market regulations; and (3) business regulations (Knell & Srholec, 2007, p. 6). The authors created indexes for each of these spheres[2] and based on the sums across the relevant indexes they constructed the index of the coordination level[3] (Knell & Srholec 2007: 45). In their view Slovakia is rather closer to an LME, while the Czech Republic approaches a CME.

Baláž's (2006) coordination index is composed of three main elements: *the business environment, the labour market environment, and the financial market environment.*[4] For the construction of this index, Baláž (2006) used the databases of the international organizations — the OECD, the World Bank, the ECB, FESE, and the WEF. A shortcoming of the sample is that neither the Baltic States, nor Slovenia were members of the OECD at that time, which limits the comparison significantly. Both Slovakia and the Czech Republic are slightly coordinated in the Baláž's index.

Lane and Myant (2007) also included the post-communist states from outside the European Union and former members of the Commonwealth of Independent States in their analysis. Considering questions of equity, forms of ownership, efficiency of economy, industry and expert structure and others, they identified three groups of states. The Czech Republic and Slovakia, as well as Poland, Hungary, Slovenia and Estonia were part of the first group labelled *state-led continental type of market capitalism*. These states approach a level of marketization and privatization similar to that in the OECD countries, however, the fact that they each have more a developed welfare state is what makes them distinct from the Anglo-American countries. Welfare states have been inherited to a considerable degree from the socialist past and coordination has been still dependent on the state. The other two types of Eastern European capitalism identified by Lane and Myant (2007) are *hybrid state-market uncoordinated capitalism* and then countries that have not developed a capitalist system yet (e.g. Uzbekistan, Belarus, Turkmenistan).

Nölke and Vliegenthart (2009) combined elements of the VoC approach and dependency theory to introduce a third type of capitalism *Dependent Market Economy* (DME; Nölke & Vliegenthart 2009). The authors questioned the applicability of the original approach because of the CEE's "external dependency" (Nölke & Vliegenthart 2009: 672) The DME has its own comparative advantages, namely in the assembly and production of complex consumer products. The institutional complementarities are based on "skilled, but cheap labour; the transfer of technological innovations within transnational enterprises; and the provision of capital via foreign direct investment" (Nölke & Vliegenthart 2009: 672). The coordination in DME is "alternative" and takes place from the headquarters towards the local branches of the transnational companies. The innovation flows in the same direction.

Although there is a considerably large consensus on the position of Estonia and Slovenia within the VoC framework, the actors' coordination in the Czech Republic and Slovakia has not been yet so far clearly described and labelled. Different results and categorizations of these two countries stem from the diverse methods applied and various independent variables taken into consideration.

This research contributes to this discussion by studying the coordination in the Czech Republic and Slovakia using a method of questioning of the domestic experts with deep knowledge and experience of coordination-problem solutions in different spheres. The research design and sampling is described in the following section.

Methodological Notes

In addition to comparative statistical databases we employed a questionnaire survey.[5] Experts, such as employers' representatives, provide a qualified view into the studied topic. We asked for their expert opinion in a questionnaire that was based on the Likert scale. The questionnaire consisted of 14 items and each of these items included two contradictory statements with a7-points scale between the statements. Each expert was asked to use the scale to indicate the degree to which the two contradictory statements reflect reality in their home country (the Czech Republic or Slovakia).

In the questionnaire, the statements representing one ideal type were intentionally placed randomly on the both sides of the scale to prevent automatic answering of the one identical value for all items. The data was rescaled prior to analysis, so that the answer "1" indicated an inclination towards an ideal LME and "7" represented an inclination toward an ideal CME. Besides this rating, the experts could 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 (Neuman 2006). From 98 addressed experts, 29 (14 from the Czech Republic, 15 from Slovakia) completed the questionnaire and provided us with their qualified view about the issue: 7 are representatives of trade unions, 7 of professional organizations and chambers of commerce, 6 are governmental and state representatives, 5 firm or industry representatives, and 4 representatives of employers' associations.

The response rate was only 30 %. Despite that, data gained by this survey is used for analysis because we consider these as highly qualified expert opinions. We have to concede that the survey is not representative and comprehensive, however, we believe that thanks to the innovative research strategy in the VoC field (questioning of the experts), our study provides a valuable contribution to the VoC debate.

The survey is complemented by secondary data (statistical data and several official documents) analysis. It is also important to note that our study is exploratory and as such attempts to answer 'what' rather than 'why.'

Empirical Results: Uncoordinated Lands?

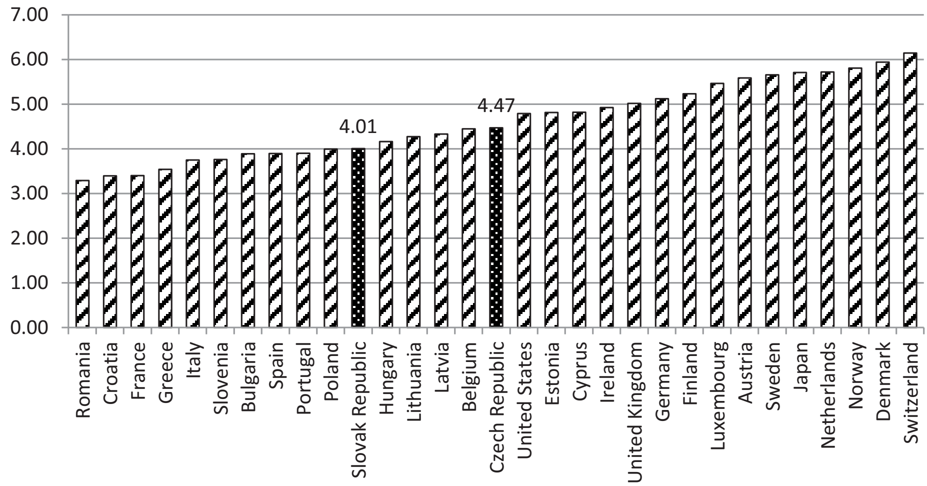
The questionnaire design stems from the VoC approach taking into consideration all its spheres of coordination. Since all the respondents were guaranteed anonymity, we list only the country and the field a given respondent represents. We proceeded with our analysis according to the spheres of VoC identified by Hall and Soskice (2001). Firstly we reviewed the statistical data in order to set the Czech Republic and Slovakia into the international comparative framework. Consequently we analysed the results of our own survey, which provides deeper insight and experts' opinions about the given sphere of coordination.

Industrial Relations and Employer-Employee Relations

The core areas of the VoC are the industrial relations and the sphere of the employer-employee relations. This field concerns the wage and productivity levels that determine the success of a firm and influence unemployment or inflation rates in the economy as a whole.

The World Economic Forum (WEF) investigates the labour-employer relations in its *Global Competitiveness Report 2010–2011*. The WEF survey focuses on the opinions of the Chief Executive Officers and other top level managers. The WEF survey offers the respondents a seven point scale marking the labour-employer relations from generally confrontational (1) to generally cooperative (7). The position of Slovakia and the Czech Republic is presented in Figure 1.

Figure 1: Cooperation in Labour-Employer Relations (WEF, 2011)



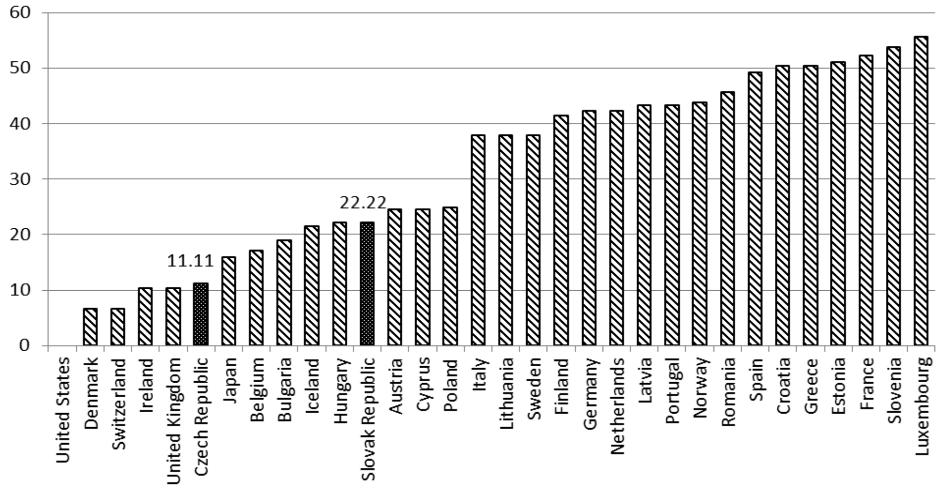
Source: WEF (2011)
Note: Scale from generally confrontational (1) to generally cooperative (7).

Based on the WEF index of cooperation in the labour-employer sphere we could say that the relationships are neither clearly cooperative nor confrontational in both the Czech Republic and Slovakia.

In the line with the VoC concept, the World Bank constructs the Rigidity of employment index. This takes into account both the difficulty of hiring and the difficulty of firing, plus the rigidity of hours index. All the three sub-indexes measure several components and they are explained in a more detailed way in the *Doing Business 2011* report (World Bank, 2010: 132).

Figure 2 presents scores of the EU27 countries regarding the Rigidity of employment. The higher the score is, the more rigid the corresponding legislation is. The positions of the Czech Republic and Slovakia are highlighted with the actual scores shown. According to the index both of the republics seem to have relatively flexible hire & fire legislation compared to the other EU countries. The Czech Republic scored 11.11 and Slovakia 22.22.

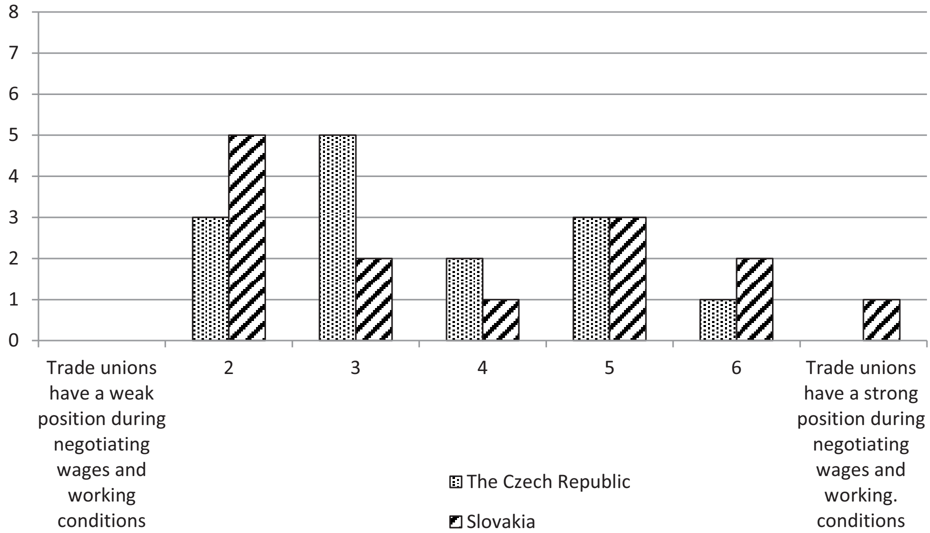
Figure 2: The Rigidity of Employment Index 2010



Source: World Bank 2010

Our questionnaire asked about several issues from the sphere of labour-employer relations as well. The distribution of answers is shown below (see Figures 3–5). Based on the results of our survey, it is not possible to clearly state if the relations in the countries are closer to the Liberal Market or Coordinated Market Economy. The position of the trade unions seems to be ambiguous, with the Slovak trade unions leaning slightly more toward the CME type (see Figure 3).

Figure 3: Distribution of Responses Regarding the Position of Trade Unions

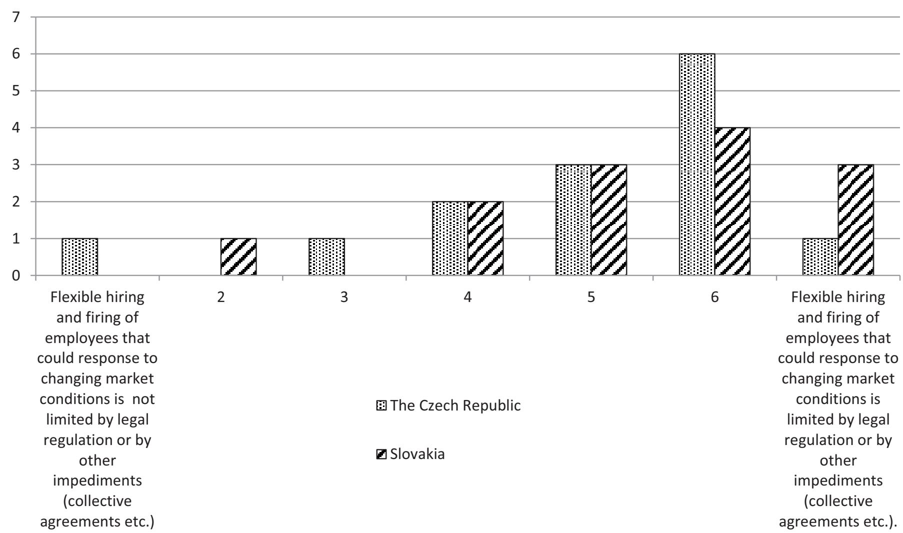


Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey.

A deeper analysis of the experts' comments, however, shows that the position of unions in both countries is rather weak. As a respondent representing Czech trade unions stated, the main factor determining the position of individual unions is the personality of negotiator and his preparedness. He added that the union negotiator is often without any kind of support. *"Union members are not willing to support the negotiator, mainly being afraid of the job loss."* Another respondent, a representative of employers in the Czech Republic, commented: *"According to our discussions with foreign investors, the trade unions in the Czech Republic are significantly weaker than in the Western countries."* A trade union representative from Slovakia confirmed that the situation in Slovakia is similar: *"The unions' position is only as strong as how strongly they fight for it. [...] sometimes firms do not comply with the Labour Code when it comes to negotiation about wages, e.g. in the financial sector."* This indicates the weak powers of trade unions in the two countries in regard to negotiations. Their role can only be strengthened by the negotiator's skills and support he gets from employees. This indicates that the legally declared institutional support of social dialogue is in practise rather fragile.

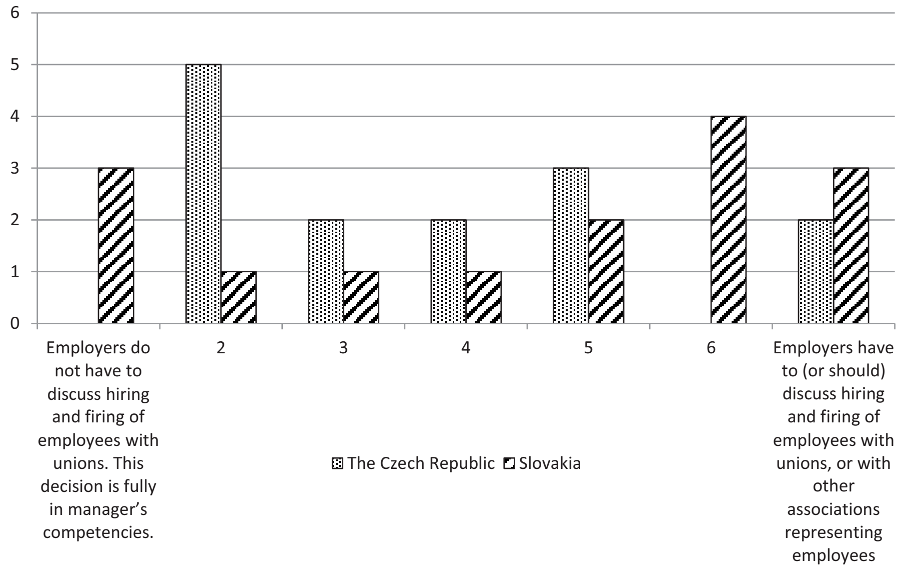
Concerning issues connected to the hiring and firing of workers, the distribution of answers indicates that hiring and firing of workers requires certain coordination among the social partners; again more in Slovakia than the Czech Republic (Figure 4 below). The rules regarding employment in the Slovak Republic are more rigid than in the Czech Republic. This is in line with the World Bank's "Rigidity of employment index." However, according to the index both of the countries belong to the least rigid employment systems in the EU. The discrepancy between the WB index and our results might be caused either the difference in the rigidity of the individual aspects that WB investigates, while our survey only asked about rigidity of hire & fire legislation in general terms. Another possible explanation is that the former states of Czechoslovakia are among the least rigid states within EU, however, the whole Union is considerably rigid.

Figure 4: Distribution of Responses Regarding the Flexibility of Hiring and Firing of Workers



Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey.

Figure 5: Distribution of Responses Regarding the Obligation to Negotiate the Hiring and Firing of Workers by Employers



Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey.

Remuneration of workers and wage negotiation is also an important element of the employer-employee relationship (see Figure 5). In our survey the union representatives' answers indicated a situation slightly closer to the LME model, whereas the opinions of the representatives of the employers' association, industries and government in these two countries showed an inclination towards the CME ideal (a figure not shown). When being asked about wages, a trade union representative from the Czech Republic said that *"[wages] are considerably different. The prosperity of the firm is very important and large differences also exist between local firms and multinational companies."* Another Czech unionist shared the same view pointing out the fact that differences are also *"between occupation types and that the mobility of workers is very low."* On the other hand, employers and industry people expressed different opinions. A representative of a Czech industry association: *"Wages might differ by geographic regions. Other than that, firms know very well how much the competition pays their workers, so there is no reason for much of a difference."* Another respondent, a representative of a professional chamber in the Czech Republic, confirmed that *"people who perform similar jobs at different companies are paid roughly the same amount."* A person from a Slovak professional organization agreed saying that *"wages might vary across regions,"* not sectors or firms.

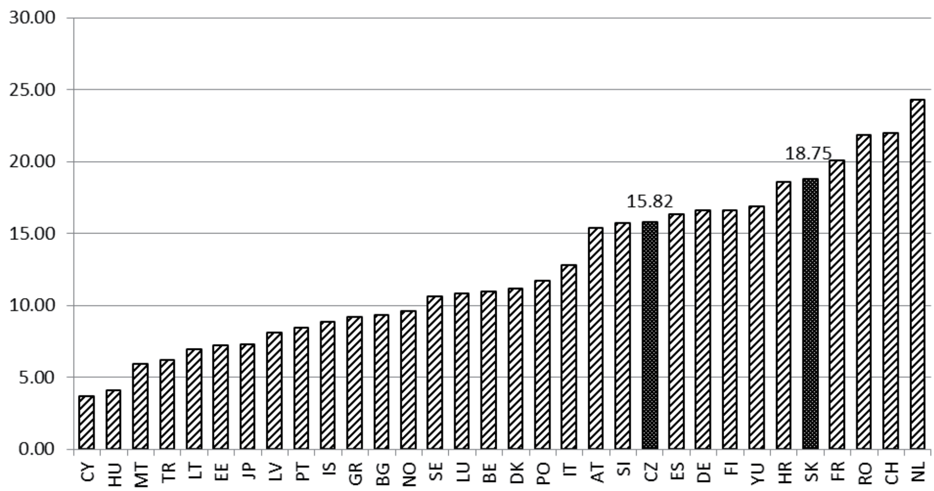
Answers in this section show that employers and representatives of employees do not share the same opinion about the coordination mechanisms in the employer-employee relationship. This is the section where the answers differed the most across affiliations. Unionists indicated considerably liberal and market-oriented coordination between employers and employees, while the answers of other experts were around the centre of the scale. This is possibly caused by the distinct perception of the employment relationship each side holds. However, explaining this in a detailed way is beyond the scope of this study and requires a more in-depth qualitative research.

Education and Training

This sphere includes mainly the problem of securing a workforce with suitable skills, while workers face the problem of deciding how much to invest in what type of skills (see e.g. Estevez-Abe et al. 2001). The outcomes of this coordination problem influence not only the fortunes of individual companies and workers but the skill levels and competitiveness of the overall economy.

Figure 6 below shows the share of vocational programmes graduates out of all graduates of upper secondary level school (ISCED 3). The proportion of vocational schools graduates in Slovakia and the Czech Republic is above the European average. We can also see that the CME countries of the VoC literature have on average a higher proportion of vocational school graduates (e.g. Germany or Austria). Unfortunately, data for LME ideal countries (USA, UK or Ireland) were not available.

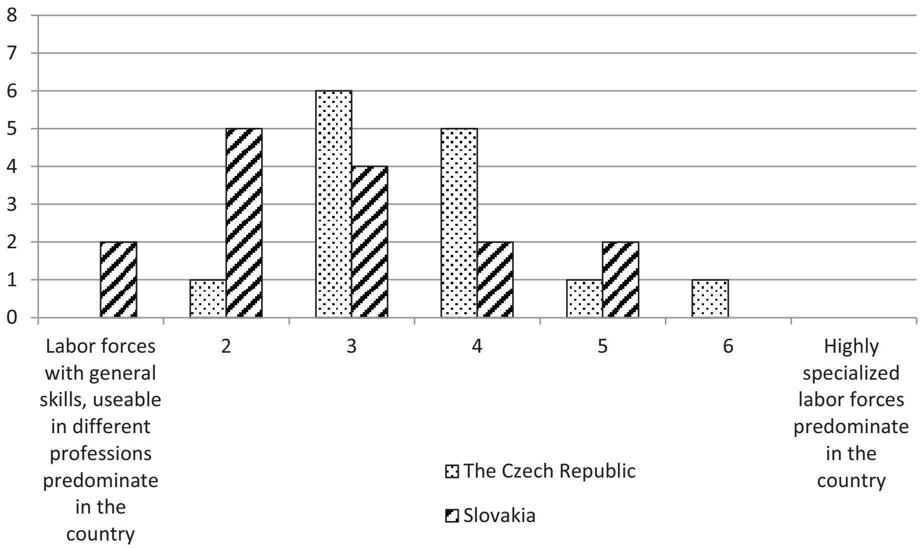
Figure 6: Proportion of Vocational Programme Graduates Compared to All Graduates at an Upper Secondary Level of Education in 2010 (ISCED 3)



Source: European Commission, 2012
Note: Data for USA, UK and Ireland not available.

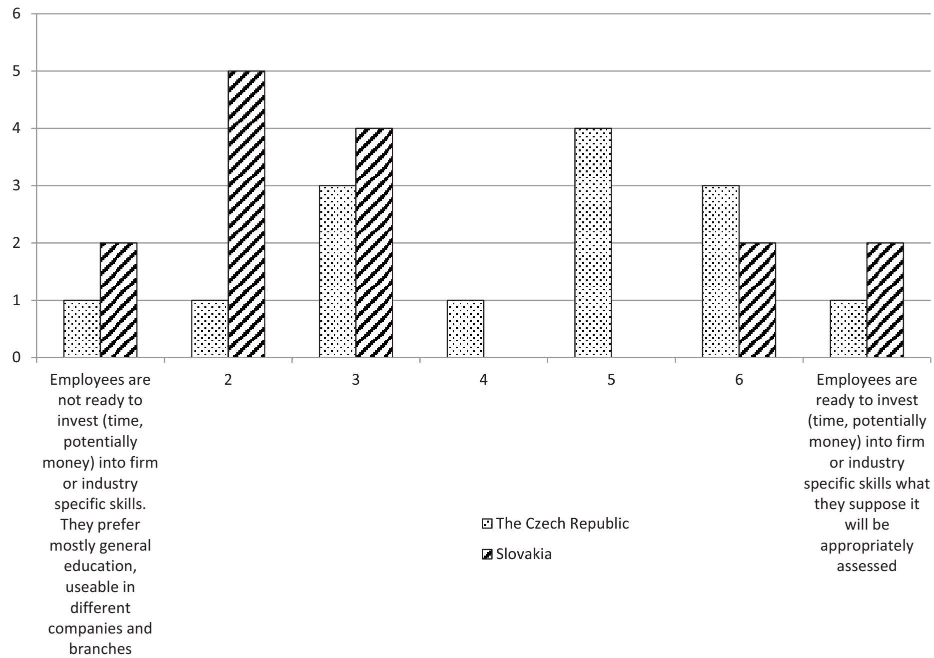
Our survey asked about labour force specialization and employees' willingness to invest time and money into further qualification (Figures 7, 8 and 9). The distribution of answers regarding the coordination in the educational sphere does not provide a clear-cut indication of whether the coordination is market-driven or strategic. In the experts' opinion employees in the Czech Republic are more willing to invest in firm-specific skills and the labour force generally is a little more specialized than in Slovakia.

Figure 7: Distribution of Responses Regarding the Level of Skills in the Labour Force in the Czech Republic and Slovakia



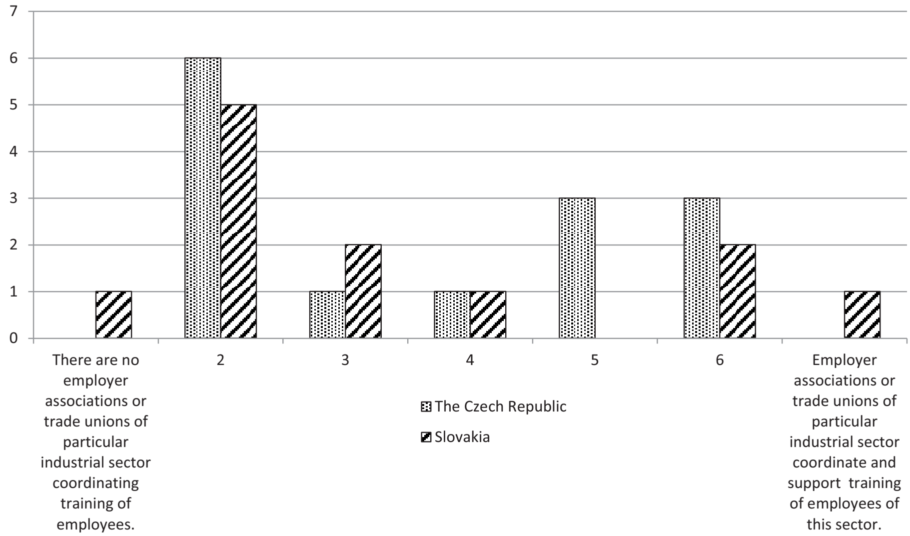
Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey.

Figure 8: Distribution of Responses Regarding the Readiness and Willingness of Employees to Invest Time and Money into Further Education/Training



Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey.

Figure 9: Distribution of Responses regarding the Co-ordination of Employees' Training and Education



Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey.

However, there might be considerable differences among industrial sectors and spheres of economy. One respondent, a representative of trade unions in Slovakia, pointed out that employees often invest time to gain further qualification *"just to maintain the current working position."* Another respondent, a representative of employers' association in Slovakia, noted that employees are willing, however not with much enthusiasm, to improve their qualification only if this is *"organized and financed by the employer."* These experts' insights might indicate that there is a very weak if any strategic coordination of employees' training and up-skilling in the national economies of the two countries.

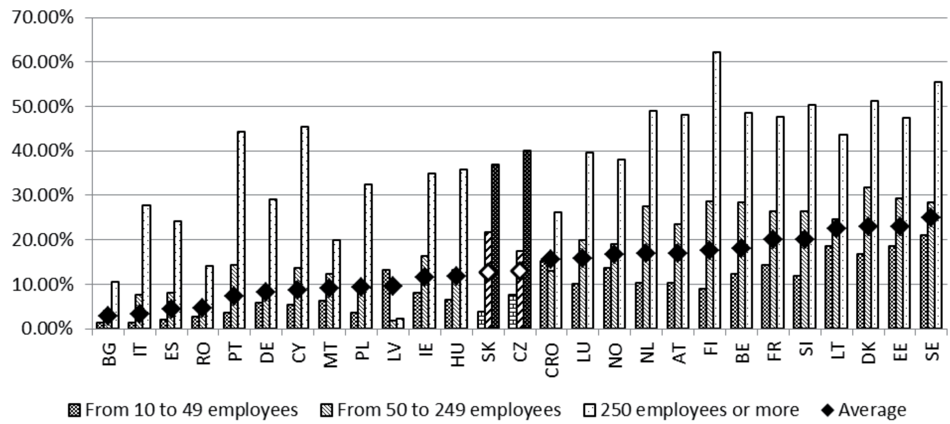
The fact that the experts' answers are not aligned to one side or the other of the scale might indicate that there is no systematic coordination in the educational sphere of the economy. Although the score reported in our survey might be sensitive to personal experience, we believe that due to the position of the experts their opinions mirror the situation of the whole industry, region or economy, and not only a single firm or unit of production.

Inter-firm Relations and Corporate Governance

Inter-firm relations cover the relationships a firm develops with other enterprises, notably its suppliers and/or clients. These are endeavours that may entail standard-setting, technology transfer, and collaborative research and development. Here, coordination problems stem from the sharing of proprietary information and the risk of exploitation in joint ventures. Corporate governance issues entail important coordination of economic actors in order to manage a firm in an effective way. Successful inter-firm coordination might allow a firm to achieve technological progress and thus maintain its competitive advantage.

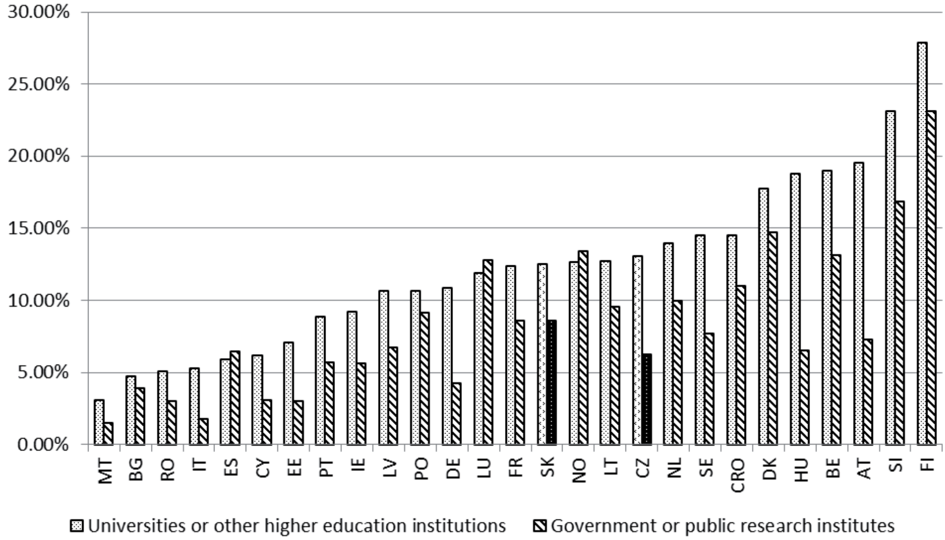
The Community Innovation Survey from 2008 by Eurostat asked firms, among other questions, about their cooperation in the field of technological innovation with other actors in the national economy. The Figures 10 and 11 present the results. In total about 13 % of firms from the Czech Republic and Slovakia cooperate in the field of technology innovation with other actors within their enterprise group. When considering large enterprises with more than 250 employees, 40.06 % and 36.90 % of enterprises respectively reported such cooperation (Figure 10). When it comes to technological innovation, cooperation with universities or public research institutions, the two countries are again positioned in the middle of the European ranking. In both Slovakia and the Czech Republic firms cooperate more with universities or higher educational organizations than with public research institutes (Figure 11).

Figure 10: Share of Enterprises that Cooperate on Technological Innovation, Regardless of Organizational or Marketing Innovation, within Firm's Enterprise Group in 2010, by Firm Size



Source: European Commission, 2012

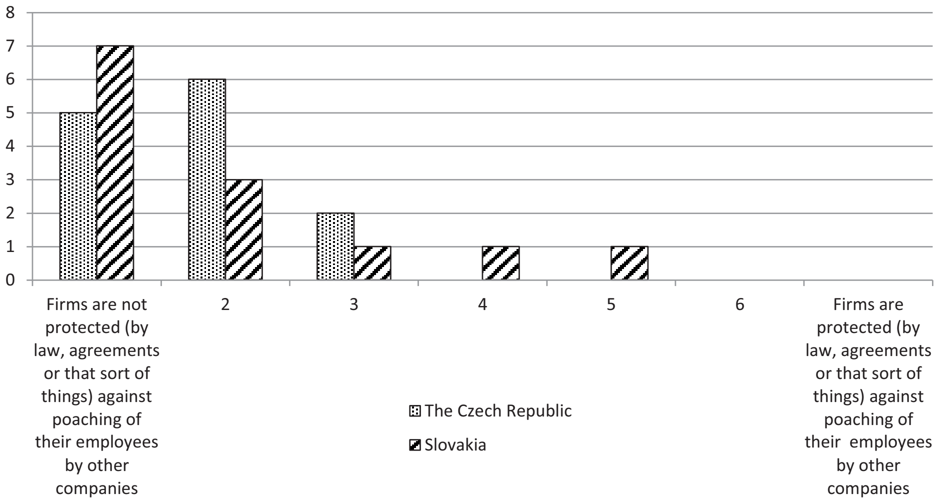
Figure 11: Share of Enterprises that Cooperate on Technological Innovation, Regardless of Organizational or Marketing Innovation, with Universities, Government, or Other Research Institutions



Source: European Commission, 2012

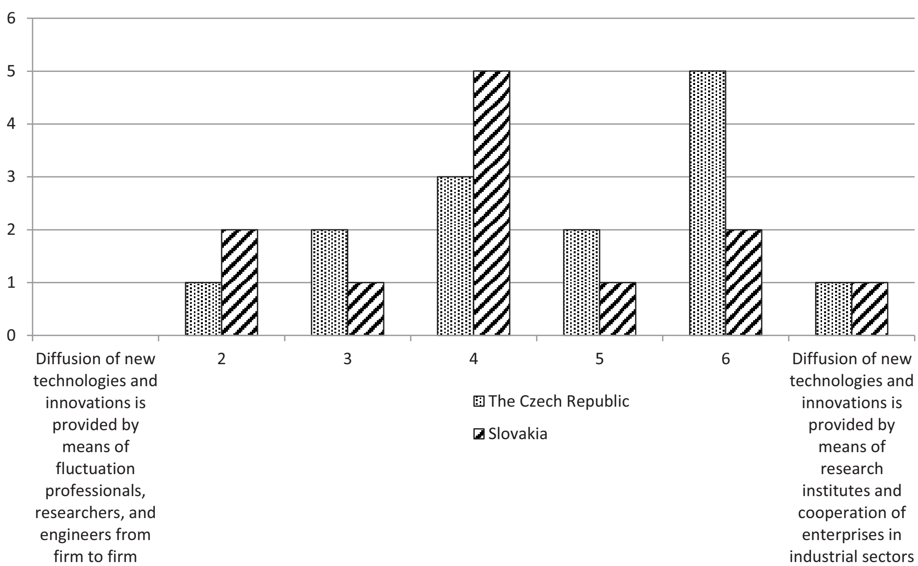
Our questionnaire asked about the innovation transfers and protection from poaching which are parts of the VoC explanatory framework. As Figure 12 indicates regarding issue of poaching, there is a slight inclination towards the LME end of the spectrum. That means that firms are not protected (by law, agreements, etc.) against poaching of their employees by other companies. This has also been confirmed by several respondents' comments. However, the situation in this regard has slightly changed since we collected the data.[6] The Labour Code in Slovakia which has been in effect from January 2012 has established a legal basis allowing employers to enforce a protection period after termination of a contract during which a former employee is forbidden to perform the same job elsewhere. However, this must be a part of an employment contract, with the maximum length of the protection period one year and the employer must provide 50 % of the previous salary as compensation.

Figure 12: Distribution of Responses Regarding the Protection from Employees Poaching



Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey.

Figure 13: Distribution of Responses Regarding the Diffusion of Innovations in the National Economy

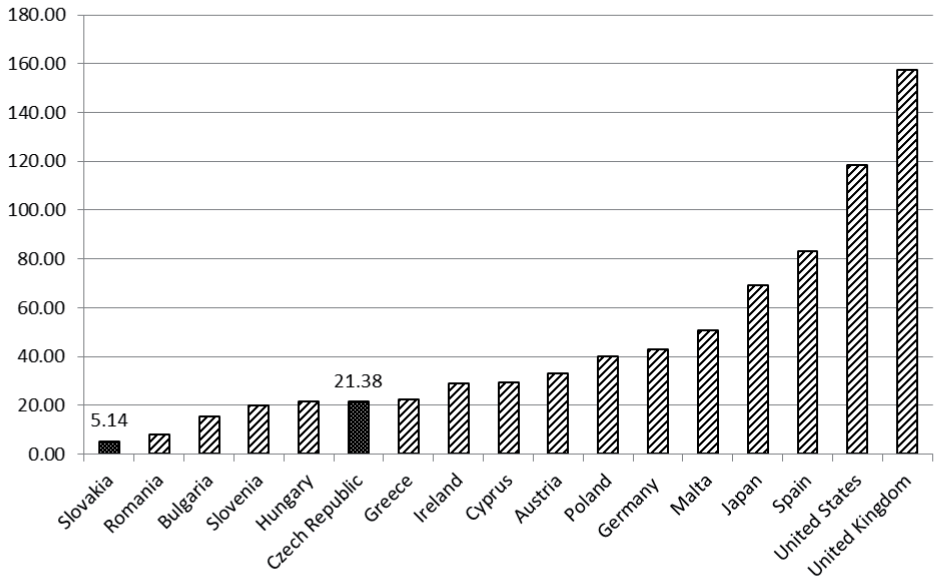


Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey.

The experts were not very clear in assessing the innovation issues and technology transfers. The points given in the scale lean slightly towards the CME model. More importantly, a few comments indicated relatively close cooperation of firms with research institutions. A representative of a Czech professional organization said explicitly that *"the technology transfer is secured by the cooperation of universities, research institutes and firms in a given industry sector."* Another respondent from the Czech trade unions provided examples of cooperation between a given technology college and several firms in the given region. A representative of a Slovak professional organization said that there is information about cases of cooperation between firms and universities *"either in form of specific projects initiated by companies, or buying a complete research results from universities."* He also added he heard about firms doing their own research. A respondent representing the trade unions in Slovakia stated he had information about the finance and insurance sector where *"each firm works on its own technological progress, even independently from the systems of their parent company abroad."* This undermines the conclusions of Nolke and Vliegenthart (2009) about the DME type of capitalism and technology transfers from abroad being the main channel of innovation. Within the framework of Hall's and Soskice's (2001) ideal types, the experts' statements indicate an inclination to a strategic coordination of business with research organizations.

Stock market capitalization is often shown as a typical indicator in the sphere of corporate governance (Hall and Soskice 2001; Babos 2010). Figure 14 presents the stock market capitalization of the European countries (where data available) plus Japan and the US. The figure shows that the market capitalization in the CEECs is generally at a lower level compared to the Western European countries. This could be a result of the short history of the market economy in the CEECs. Therefore we argue that in regard to post-communist states the low levels of stock market capitalisation is not a reason to conclude that the coordination is strategic.

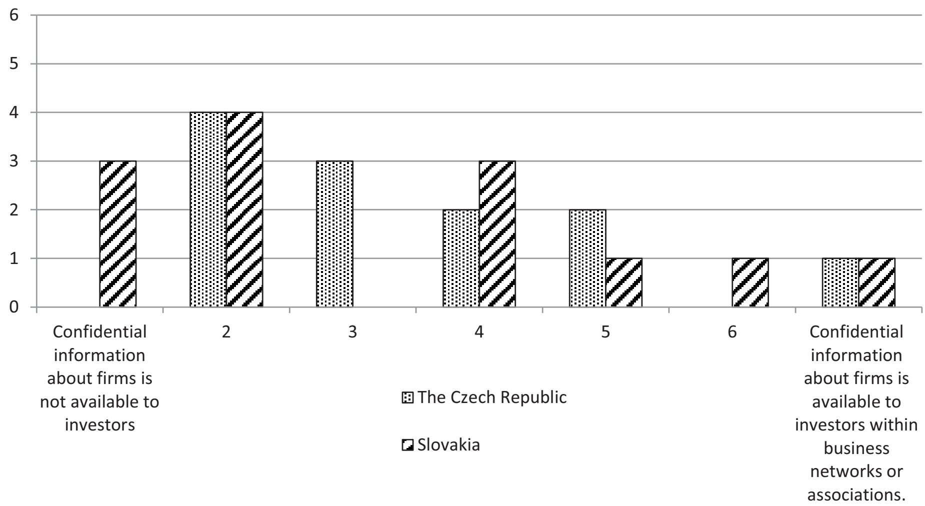
Figure 14: Stock Market Capitalisation Measured as % of GDP



Source: European Commission, 2012

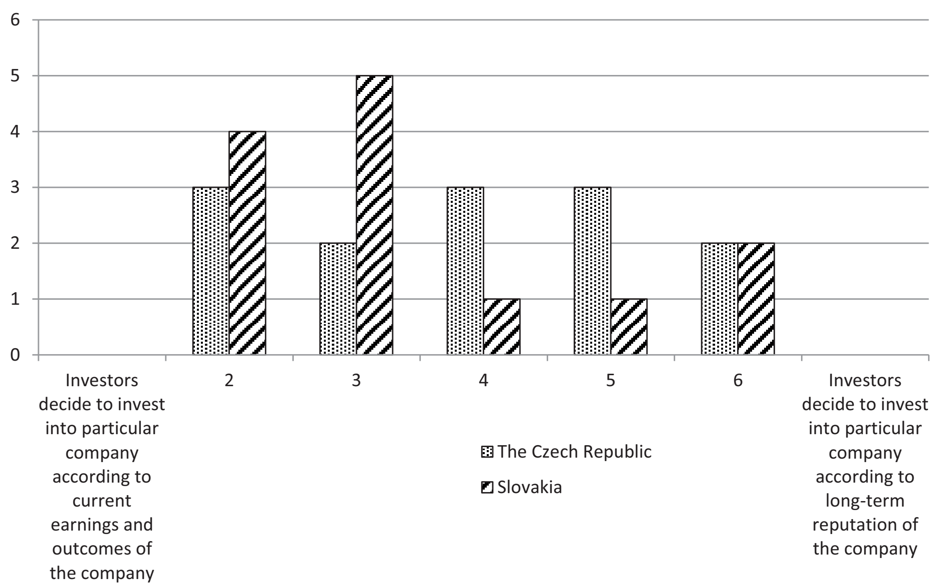
Our survey captures slightly different aspects of the corporate governance sphere. The Figures 15 and 16 present the responses to questions on the survey regarding corporate governance. The experts are not completely unified on the availability of firms' confidential information to investors. Although answers from the Slovak respondents are lean lightly more towards the LME model, on the whole it is impossible to conclude that either of the two countries show signs of the ideal type of coordination. When it comes to investors' decision-making, the answers are even more centred on the mean. This is in line with partial results of our study regarding the previously analysed spheres of VoC coordination. These results indicate that the behaviour of economic actors is not coordinated in a unified way across the different spheres.

Figure 15: Distribution of Responses Regarding the Availability of Confidential Information to Investors



Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey

Figure 16: Distribution of Responses Regarding the How Investors Make Decisions on Investing into a Firm



Note: Figure presents the distribution of experts' answers on the scale from one to seven, where 1 indicates the situation is closest to the LME model, while 7 indicates the situation closest to the CME model.
Source: Own survey

Although there are some specific questions where our results show an inclination to one of the ideal types of the VoC approach, the overall picture based on the statistical data and the scale of our questionnaire remains blurry. The distribution of responses supports and highlights the ambiguity of the position of the countries in question.

The statements and remarks of the experts have insightfully complemented the statistical data in our analysis. Although not perfectly clear, we argue that there is an emerging pattern in the coordination of firms and other actors in the economies of Slovakia and the Czech Republic. The coordination problems analysed in this study could be grouped into two broad categories. The last section discusses this pattern and how it relates to the current debate in the VoC literature.

Discussion and Conclusions

The goal of this study was to investigate the coordination of economic actors in the Czech Republic and Slovakia. We used available statistical data and our own expert survey in the analysis. The overall results of our survey do not indicate an inclination towards any of the ideal types of the VoC approach presented by Hall and Soskice (2001). However, after the analysis of the respondents' opinions and remarks, we argue that there is an emerging pattern of how firms solve their coordination problems with other actors. Firstly, there is a broad group of issues involving the relationship between employers and employees. This regards the weakness of unions, low willingness of workers to invest in training, as well liberal hire & fire rules and almost non-existing protection from poaching. In regard to these issues there is a tendency to coordinate the relationship between a firm and employees in a liberal way.

On the other hand, the second broad category of issues is that of a firm's external relationships, e.g. other actors outside the firm and not its own staff. Technology transfers and innovations or financial issues belong here. The experts' views indicate that firms organize their relationships with other actors in a strategic way similar to CMEs. Cooperation in innovation or a relatively high share of vocational schools graduates support this claim.

Therefore we argue that the political economies of Slovakia and the Czech Republic are not only 'uncoordinated,' but 'systematically uncoordinated.' By this we mean the fact that the respondents' answers to the questions on the survey do not align in a single pattern, but they are not *randomly* distributed either. We argue that it is possible to observe the emerging pattern of systematic 'un-coordination' where firms organize their internal relationships with employees and unions in a liberal way, while keeping the relationships with external actors (universities, government, banks) strategic.

Coordination of different spheres of a national economy should in theory increase the returns from economic activities of the actors (Hall and Gingerich 2009). The crucial point is that it is the coordination among different spheres which increases the information and predictability of others actors' behaviour and thus reduces the uncertainty and prevents defection. This brings back the concept of institutional complementarities. Hall and Soskice (2001: 18) argued that *"nations with a particular coordination in one sphere of the economy should tend to develop complementary practices in the other spheres as well."* Our study shows that firms in the countries of the former Czechoslovakia do not develop their internal and external relationships in a similar, reinforcing way. Explaining why this is the case is beyond the scope of this study. Possible reasons might be historical legacies and institutions that remain unchanged from the past (e.g. the technological orientation of university research, trade union practices, etc.).

Question might arise as to why our results are not in line with other scholars' research. In our opinion, a possible reason why there is a discrepancy between our results and other studies is that most of the recent scholars took into considerations only selected spheres of the VoC and/or areas which were not originally part of the VoC approach. Bohle and Greskovits (2007) based their analysis on data concerning the industrial transformation, marketization, social inclusion and macroeconomic stability. The last two are not identified as an integral part of VoC by Hall and Soskice. Baláž (2006) included the difficulties with hire & fire practices and market capitalisation, but also data on barriers in developing business and trade and the taxation level. Knell and Srholec (2007) focused on labour market regulation (hire & fire legislation and hours rigidity), business regulation (including market capitalisation), and social cohesion. The last point, not only being outside the VoC framework as defined by Hall and Soskice (2001), but it also combines different concepts such as the income tax rate, inequality measurement (GINI coefficient) and the public finance redistribution level. The experts' views expressed in our study also undermine the DME model and the dependence of firms on their parent companies abroad (Nölke and Vliegenthart 2009).

This study is a contribution to the VoC debate for two main reasons. Firstly, the advantage of our expert survey is that the questions focused on *all of the core spheres of the VoC* as defined by Hall and Soskice (2001). As the results show, institutional setting and behavioural practices in some of the areas seem to reflect the LME, whereas there might be an inclination to the CME practices in some other spheres. Secondly, our survey opened the possibility for experts to provide insight and deeper understanding of relationships firms develop. As the findings show, this innovative research approach within the field of VoC studies (to ask the main actors or their representatives themselves) might make a highly valuable contribution to current debate, however, further in-depth studies are needed to answer the key question of 'why'. As noted above, the character of our research was rather exploratory. We focused primarily on answering *what* is the actual coordination of the economic actors in all spheres as identified by the VoC. Explaining *why* there are differences between these spheres as well as countries has been beyond the scope of this study and shall be addressed by future research.

Notes

1 Hall & Soskice (2001) admit that they leave aside the problem of to whom the total returns accrue.

2 A) Index of social cohesion – comprised of these indicators: Gini coefficient, highest marginal personal tax rate, highest marginal corporate income tax rate, government final consumption expenditure (% of GDP). B) Index of labour market regulation – comprised of these indicators: difficulty of hiring workers index, difficulty of firing workers index, costs of firing workers (weeks of wages), rigidity of working hours index. C) Index of business regulation – comprised of these indicators: number of start-up procedures to register business, time to resolve insolvency (years), number of procedures to register property, stock market relative to banking sector in the financial system (Knell & Srholec, 2007).

3 Those indicators which are negatively correlated to the composite index (for instance, Gini coefficient) are summed up with a reserved scale (Knell & Srholec 2007). For detailed explanation of the methodology of the creation of this composite indicator, see Knell and Srholec (2007).

4 The business environment index comprises of an index of business development obstacles and an index of foreign investment obstacles, the labour market environment index comprises of an index of difficulties concerning the hiring of employees and an index of difficulties concerning the firing of employees, and the financial market environment index comprises of the total amount of taxes paid by a company and market stock capitalization in relation to companies' credits (Baláž 2006).

5 The same method and questionnaire were used in the study of the Czech variety of capitalism (Klimplová 2007 and 2009).

6 Data were collected between December 2010 and February 2011.

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