

Union activity in subsidiaries of multinational corporations in Republic of Croatia

Najla Podrug^{a,*}, Mario Filipović^b, Valentina Kuča

^aFaculty of Economics and Business Zagreb, University of Zagreb, J. F. Kennedy 6, 10 000 Zagreb, Croatia

^bFimar d.o.o. Split, Matice hrvatske 9/a, 21 000 Split, Croatia

ABSTRACT

Multinational corporations as the primary holders of foreign direct investments have a significant impact on the national economy with a well-developed and prepared institutional infrastructure, but they have even stronger impact on the transition economies and developing countries. Expanding into new markets, multinational corporations create new jobs; therefore unions have an important role in protecting employees' rights and their representation towards employers. The role of unions in the lives of all employees is even more noticeable because the situation on the labor market is extremely unfavourable and in many countries employees' rights are threatened. But researches also show that the proportion of union membership in the developed countries is decreasing, and also in developing countries and this trend has not bypassed Croatia. The aim of this paper is to investigate the role of unions in the subsidiaries of multinational corporations in Croatia. In more than half of the analyzed subsidiaries of multinational corporations we identified one hundred percent coverage of employees by collective agreements. We analyzed the most common reasons for joining the union and evaluated the relationship between unions and human resource management departments.

ARTICLE INFO

Keywords:
union, subsidiary of multinational corporation, union's activities, Republic of Croatia

**Corresponding author:*
npodrug@efzg.hr

Article history:

Article Submitted 14-04-2015
Article Accepted 20-06-2015

**Article previously published in
EJEM 2015, vol 2, No. 3

1. INTRODUCTION

In today's global world, multinational corporations play a leading role in the development of the world economy. They are the drivers of globalization, liberalization, conglomerations, financial innovations, and new forms of financing. It is known that the developed countries are those that have the best basis for the development and operations of multinational corporations, but it's often the case that such corporations also choose developing countries or countries in transition as a place for the establishment of their new subsidiary. Due to the fierce competition that is present on today's market, the achievement of organizational goals is impossible without the joint efforts of employees and managers. Employers are becoming increasingly aware that the quality of their products and services on the market is not going to be possible without high-quality and satisfied employees. Also, employees have developed awareness of the fact that only hard work and education will lead them to the desired position

in the organization. Although it is beyond doubt their mutual need, their goals often differ, and collective bargaining is a method used to meet their different needs. That is a job of trade unions whose main purpose is serving the society with their work. It can be said that today's trade unions are focused on serving the public, development of society and civil values. They perform a number of tasks on a daily basis for the benefit of its members, but also meet the interests of the government, the country and the wider community. Basic service that unions provide to its members is ensuring adequate compensation and working conditions. The purpose of this study is determining the position of the trade unions and their specific activities in the subsidiaries of multinational corporations in the Republic of Croatia.

2. MULTINATIONAL CORPORATIONS AND UNIONS

The importance of large corporations goes beyond the framework of partial economic activity and they become a universal social phenomenon that affects all three dimensions of sustainable development: social, economic and environmental (Galetić, 2011, p. 6). According to the United Nations Conference on Trade and Development (UNCTAD), a multinational corporation is a company that is composed of subsidiaries in more than one country and operating under a system that allows coherent policy and decision-making. Subsidiaries are linked by ownership or otherwise so one of them or a couple of them can affect the other one, and in particular to lead to the exchange of knowledge, resources and responsibilities. Using internationalization, corporations expand their operations to other countries and when choosing a foreign market, the following criteria is considered: size and growth of the market, the existence of attractive consumer groups and the demand for products or services offered by a corporation (Rahimić and Podrug, 2013, p. 66.) If achieving efficiency is a motive for internationalization, then the election of the country where the production will be internationalized is based on the following criteria: the cost of production in certain countries, the distance from major markets (because it affects the cost of distribution), the possibility of integrating all processes into a single cross-border process and availability of resources and suitable suppliers (Dunning and Lundan, 2008, p. 72). Production costs can differ drastically. For example, labor costs in the production in Norway are 60% higher than the US average, and are fifty times higher than the costs in China. The first twelve countries in terms of the amount of labor costs in manufacturing are European countries, followed by the United States and Australia. It is interesting to note that the growth of employee income in the production is much faster in China and India than in the US,

however, it is still only 4% of average income in the United States (Rahimić and Podrug, 2013, p. 68).

Methods of expanding multinational corporations around the world are (Norbaeck, 2001, p. 455):

- horizontal integration - the opening of a subsidiary of the parent corporation in the world that produce the same goods or goods of the same product group, hence using the same technology and for the same consumer groups.
- vertical integration - subsidiaries abroad are suppliers of raw materials, where are parent corporation supplies them with factors of production.
- diversification of multinational corporations - meaning the existence of a subsidiary of the parent corporation that produce goods different from those produced by parent corporation. It is usually carried out by acquisitions or mergers.
- conglomerations - opening branches abroad that produce goods or services belonging to other industrial sectors and there is no similarity with the parent corporation when it comes to technology, production, marketing and other.

By entering new markets, multinational corporations face many institutional constraints which are different depending on the country; therefore it is considered subsidiary strategies are becoming increasingly important for multinational corporations. When a multinational corporation enters new markets, its success is partially determined by the possibility of transferring competitive technologies into the subsidiaries, which is often not easy (Dabić, 2007, pp. 29-42).

Foreign direct investment, besides transferring financial capital, include the transfer of modern technology and other intangible assets. In this way, foreign corporations can significantly affect productivity growth and long-term economic growth in the recipient country. This is the reason why direct investments of multinational corporations are considered one of the main channels through which developing countries gain access to the latest technologies which diffusion plays an important role in explaining economic growth (Bilas and Franc, 2006, p. 4).

By entering new markets, multinational corporations bring many positive and negative things. In bad times and situations multinational corporations are being pointed out because of their shortcomings, while in times of favorable situations only their their benefits are highlighted. As an institution, multinational corporation can be a positive force that has a good influence

on the economy or a negative force that is bad for the economy (Tripathi, 2005, pp. 117-131). The advantage of multinational corporations is reflected in the fact that they have many resources that help growth and development of certain countries. Some of these resources are already mentioned technology, management, know-how, skilled labor force, the international production networks, access to markets and well-known brands. Multinational corporations also promote development from a traditional point of view, increasing the level of investment and capital stock in the host country (Bilas and Franc, 2006, p. 6).

Multinational corporations may shift production to the country where laws are more lenient if laws of the certain country are too restrictive (Ćelić, 2000, pp. 14-15). It is known that multinational corporations open subsidiaries in those parts of the world which combine cheap labor and under-protected natural resources. This is the way that they exploit their power and set conditions that are not always favorable. The entry of multinational corporations into the market can inflict a heavy blow to domestic enterprises and cause them permanent damage. Additional costs for the national economy may result in reduced employment and for two reasons. One is the rationalization of the workforce in the acquired company, and the second reason is extrusion of unsuccessful domestic companies. Also, the emergence of corporations may lead to market deregulation in the form of development of oligopolies that reduce competition and free entrepreneurship. In addition, it can lead to compromising and diminishing the importance of national culture and national diversity of the so-called "world culture" in which the dominant position is occupied by customer value, expansion and deepening the gap between rich and poor countries, calling into question national sovereignty and endangering country autonomy. Furthermore, it can reduce the amount of "good" and increase the amount of "bad" jobs (differences in incomes among workers with the same skills or qualifications are changing due to foreign direct investment and the imperfections of the labor market). Looking at the macro level that will worsen the current account deficit of the host country if the corporation resulting from foreign direct investments imports more than it exports, for example, from their headquarters abroad (Bilas and Franc, 2006, p. 6).

Unions are legally regulated institution established by employees to represent them in the complex economic and legal relationships with employers and government (Clawson, 1999, p. 109). According to the Croatian Labour Law (2014) for the establishment of trade unions there has to be a minimum of ten adult persons with legal capacity. A worker who is a trade union must be in the same situation as the one that is not in the union. It follows that it is expressly forbidden (Labour Act, 2014): assembling an employment contract with a worker

on condition that he would not join an union, i.e. on condition that he leaves an union or cancelling the contract or otherwise put workers in a less favorable position than other workers because of his union membership or participation in union activities outside working hours, and with the consent of the employer and in time of the working hours. A worker who is a union member has the obligation to pay membership fees. It has to be calculated and withhold from the employee's salary by the employer for the account of the union.

The most important areas trade unions affect are (Marić and Pološki Vokić, 2012, p. 15):

- economic conditions - equitable distribution of wages and benefits,
- working conditions - ensuring humane working conditions relating to hours of work, equal opportunities for all workers, safety and health in the performance of work,
- participation in decision making - enabling employees to participate in decision making,
- society - through a fair tax policy and social transfers commitment to a fairer distribution of wealth.

The role in society is very important area for union activity today. Their main purpose is to serve society through their work. It can be said that today's unions focus on serving the public and the development of society and civil values. The process of trade union action is the following: they invest the resources (financial and human) in order to resolve conflicts between employers and workers and provide other services to the membership, and it is a prerequisite for attracting new members.

Unions are complex organizations that perform a number of tasks on a daily basis for the benefit of its members, but also meet the interests of the government, the country and ultimately the wider community. To satisfy all interests, activities carried out by unions can be classified into four basic groups (Independent Union of Research and Higher Education - NZS):

- union political activities - the management and implementation of trade union policy, negotiations on wages and collective agreements, initiating and planning of trade union action, representation, managing intraunion policy, international cooperation;
- administrative-managerial activities - management of the union, management of the secretariat, managing people and working with personnel, operations of monitoring and evaluation (management of the organization), extraordinary activities (periodical

jobs and projects, strikes, protests) and regular activities (organizing work of the body, care for affiliates and members in the secretariat, conduct of business);

- professional activities - legal, economic, informing, propaganda and IT;
- executive jobs - executive and organizational duties, material and financial affairs, auxiliary, technical, administrative, IT.

After the establishment of the union, it is very important to communicate in order to attract new members. Today it is very difficult to recruit new members into the union. The most common reason is ignorance and lack of information. Experts in this field believe that it is necessary to inform young people who are in the process of job search (Hernaus, 2012, pp. 39-40).

After new members join the union they need to be kept in there. Nowadays that is a complex job that involves detailed introduction of the new members with the objectives and activities of unions. The recommendation is having an orientation program which directs new members in details to the goals and values of the services and activities offered by unions. They should also be represented to the union representatives responsible for individual segments of activity. This whole process is called socialization of new members and, if well implemented, it increases the chances that the new members remain in the union.

Table 1. The benefits for union members and the organization

BENEFITS FOR UNION MEMBERS	BENEFITS FOR ORGANIZATION
higher wages and benefits	greater work effort and work performance
higher safety and health on work	a better relationship with customers
better communication between employees and management	greater employee involvement in decision-making related to organizing and carrying out the work
participation in decision making	greater loyalty and organizational commitment
higher job satisfaction, motivation and employee moral	lower fluctuation rates and absenteeism of employees
greater satisfaction with resolving complaints	better management
more additional training, education and development	better quality of products/services
better standard of living and better quality of life	higher productivity, profitability and organizational effectiveness, hiring the best employees because of the desirability of employer

Aim of the unions is achieving good working conditions for workers. This is the reason why they increasingly conflict with employers who are aimed at profitability maximization. The ideal relationship between them would be a partnership from the start, but it is only the final result which is formed after the conflict that is very common among them. The reasons for conflict vary, but they all boil down to the fact that employers and trade unions, as workers' representatives, have conflicting requirements. Finding resolution includes three parties: labor unions as representatives of workers, employers and the country.

The unions operate through collective agreement, at the level of organization, on the compensation of employees. The most important result of their negotiations is the growth of wages. These are followed by the rest of the results of the negotiations: wages equality, defining compensation structures and payment systems, establishment of a unified salary structure, fairness in rewarding employees and increase of the number and value of benefits.

Research shows decreasing proportion of union membership in the developed countries but also in developing countries as well as those emerging from communism. This trend has not bypassed Croatia. The consequences are privatization, restructuring and reducing the number of employees in the public and an increase in the private sector. In fact, once the union membership was mandatory, and today is voluntary and it is the main reason for reducing the number of people in unions. The economic crisis that struck the world, including Croatia, led to unfavorable changes in the negotiation process. The goal became maintain jobs, and in accordance with that unions and workers needed to be more flexible in the arrangements. It also revived the question of minimum wages because employers have increasing costs, on the other hand, the law which stipulates the obligation of payment of the minimum wage.

According to the official records of the Ministry of Labour and Pension System, in Croatia's state administration offices at the county level in late July 2015, there were 314 registered unions. Significantly stands out Split-Dalmatia County with 95 unions, followed by Primorje-goranska with 33 unions and Virovitica-Podravina with 23 unions. The city of Zagreb has 42 registered unions. Regional differences are the result of, on the one hand the difference in the development of the economy and the number of larger businesses, but apparently also some other factors such as the level of union awareness and involvement of union leaders.

Trade union confederations in Croatia representative to participate in tripartite bodies at the national level are (NN, 2013):

- Independent Croatian Trade Unions
- The Alliance of Independent Croatian Unions
- Association of Croatian Trade Unions
- Croatian Association of Trade Unions

Table 2. Number of affiliated unions in the union bisector in the Republic of Croatia

UNION BISECTOR	NUMBER OF AFFILIATED UNIONS (2015)
Independent Croatian Unions	66
The Alliance of Independent Croatian Unions	23
Association of Croatian Trade Unions	11
Croatian Association of Trade Unions	60

3. EMPIRICAL RESEARCH ON UNION ACTIVITIES IN SUBSIDIARIES OF MULTINATIONAL CORPORATIONS IN THE REPUBLIC OF CROATIA

Empirical research on the role of unions in multinational corporations in the Republic of Croatia was conducted among union officials and union members employed in subsidiaries of multinational corporations in the Republic of Croatia. The survey instrument was a questionnaire that enabled the collection of data on union activities in those corporations. The sample was made from employees of subsidiaries of multinational corporations operating in the Republic of Croatia who are union members or union representatives in that subsidiary of multinational corporation, and who also conduct union activities, are knowledgeable of the area and have access to the data required for the fulfillment of the relevant questionnaire. The questionnaire was sent to the address of union representatives in the subsidiaries of multinational corporations in the Republic of Croatia and the total collected completed questionnaires were 21.

95.2% of respondents are representatives of unions in the subsidiary of multinational corporation in which they work, and more than half of them are involved in the subsidiary union more than ten years. 38.1% of union officials account for more than 32 hours a month in union activities. They are followed by those who spend more than 8 hours making 23.8%, while 19% of them spends 4-8 hours or less than 4 hours to union activities.

Analysis of industries in which subsidiaries of multinational corporations operate is shown in Table 3. Most of the respondents included in the survey work in the subsidiaries of multinational corporations in the manufacturing industry and trade.

Table 3. The industry in which the subsidiary of the multinational corporation operates

INDUSTRY	NUMBER OF MULTINATIONAL CORPORATION SUBSIDIARIES
manufacturing industry	5
wholesale and retail	5
mechanical engineering	2
civil and construction engineering	2
mining	1
agriculture	1
metal industry	1
pharmaceutical industry	1
beverage industry	1
machine industry	1
gaming industry	1

Research has shown that the unions have been operating for many years in the subsidiaries of multinational corporations. Of all the respondents exceptions are two corporations, and the reason is actually their late arrival to the Croatian market. The maximum annual rate of accession of new members is 20% present in only one corporation, while in others the rate moves below 10%, and is usually 1-5%. Four corporations have 80-90% of employees involved in the union, while the two corporations have only 0-10% of included employees.

"According to the Croatian Labour Law of 2014, the collective agreement determines the rights and obligations of the parties that have concluded this agreement, and may include legal rules by which are determined conclusion, content and termination of labor relations, social security and other issues arising from employment or in relation to employment." In more than half of the subsidiaries of multinational corporations coverage of employees by collective agreement is 100%. But there is the other extreme, where the coverage of employees by collective agreement is 0-10%.

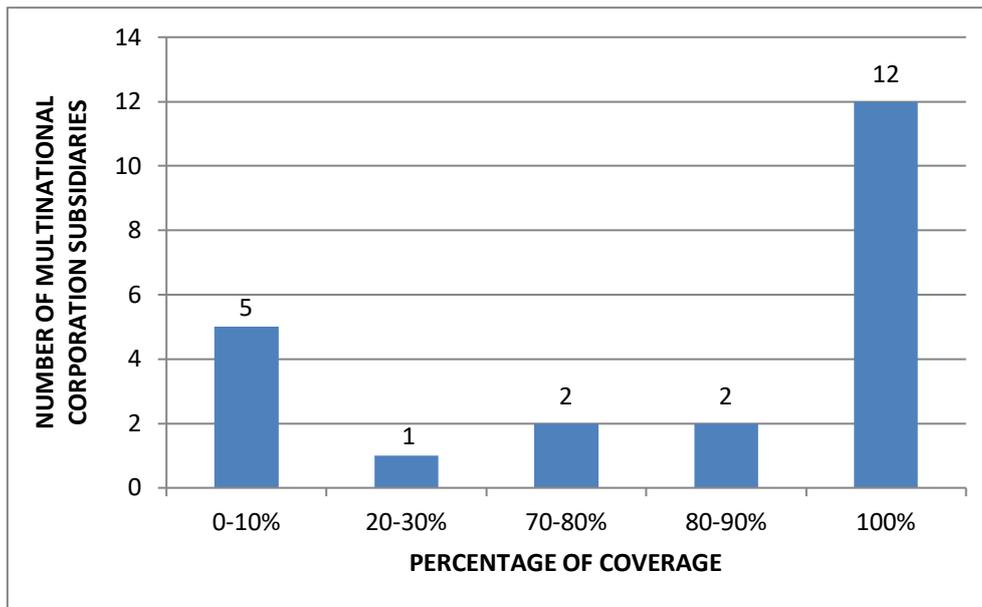


Chart 1. The coverage of employees by collective agreement

From the analysis of the benefits that employees have from accessing union it can be concluded that the majority of employees have economic (unions negotiate wages, benefits, etc.), psychological (result from the sense of belonging to the group and influence on decision making) and social benefits (as a result of community among members).

The union can promote itself verbally (communication with colleagues - "face-to-face" in the workplace and outside) and in writing (leaflets to join, magazines, website, e-mail, publication in a newspaper) or a combination of the two methods. In 57.1% of the analyzed union promotion is conducted verbally, in writing 14.3%, while the combination of verbal and written is used by 28.6% of the unions.

Table 4. Areas covered by collective agreement

AREA	THE PERCENTAGE OF COVERAGE BY COLLECTIVE AGREEMENT
paying and rewarding and working time	85.7%
health and safety at work	81%
work environment and work standards	57.1%
education and development	47.6%
disagreements at work	42.9%
job security	38.1%

recruitment, promotion and dismissal	28.6%
health and pension insurance	14.3%

Unions provide a variety of additional services, and the most common are the following: 95.2% of them provides advisory services (legal advice, psychological support, etc.), 61.9% provide reaction services (organizing sports recreation, union sports games), 57.1% financial services (union savings, union loan, recompense for unemployment in the period between two jobs), 52.4% social and cultural activities (regular meetings, joint celebration of holidays and public holidays), 19% services related to holidays (union resorts, organizing tours and trips), 14.3% services related to the health of members (check-ups, discounts for health insurance) and 4.8% further education (retraining, specialization, etc.).

The most common reasons for joining an union are existential (higher wages and benefits, better working conditions, social protection, job security, etc.), social reasons (a belief in the unions, social pressure, the individual needs to be accepted and part of a group) and the provision of additional benefits (developing knowledge and skills through educational programs organized by unions, self-fulfillment, free legal advice, etc.).

Lack of confidence in the unions as an organization is a reason for not joining unions in 47.6% of cases. The second reason is ignorance of the purpose and existence of unions, lack of conviction about the validity of syndicalism as an idea, social pressure on non-membership. There are employees who do not have any particular reason why they do not want to be in the union (passive non-accession), and there are those who have clear reasons why they are against joining the union (active non-accession). Nowadays the more common cause of passive non-accession is the fact that collective agreement applies to all employees.

The union can consist of various services. The survey showed that 85.7% of the analyzed unions in subsidiaries of multinational corporations have union office, while the secretariat and professional and administrative service are represented in the minor quantities. As a part of the technical and administrative services different departments can be set up. Most unions have a legal department, collective bargaining department and the department of finance.

In 38.1% subsidiaries of multinational corporations there is a coexistence of unions and human resources management, according to which the union and the departments of human resources management function in parallel, but their activities do not intertwine or overlap. Synergy of unions and human resources management is present in 28.6% of subsidiaries of

multinational corporations. It implies a common care for employees and cooperation of unions and the department of human resources management. This model is the best for the employees because it creates a high-quality working environment. There are corporations where employee care is the duty only of unions or only of departments of human resources management.

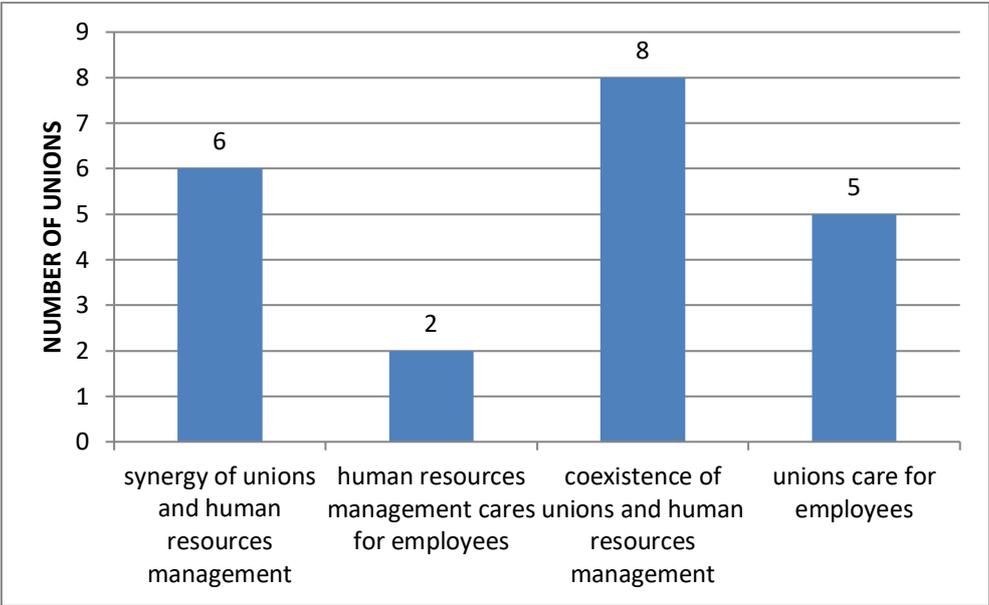


Chart 2. The relationship of union and human resources management

Most respondents believe that more activities customized to young people (social and cultural events, excursions) would contribute to increase of youth participation in the union. They also consider a necessity of promotion of unions, increase of communication with young people through social networks (Facebook, Twitter, etc.) and rejuvenation of leadership. As for the rejuvenation of management, they find necessary connecting the knowledge of older members and new ideas and perspectives of young union members and thus increasing the interest of young people in the union.

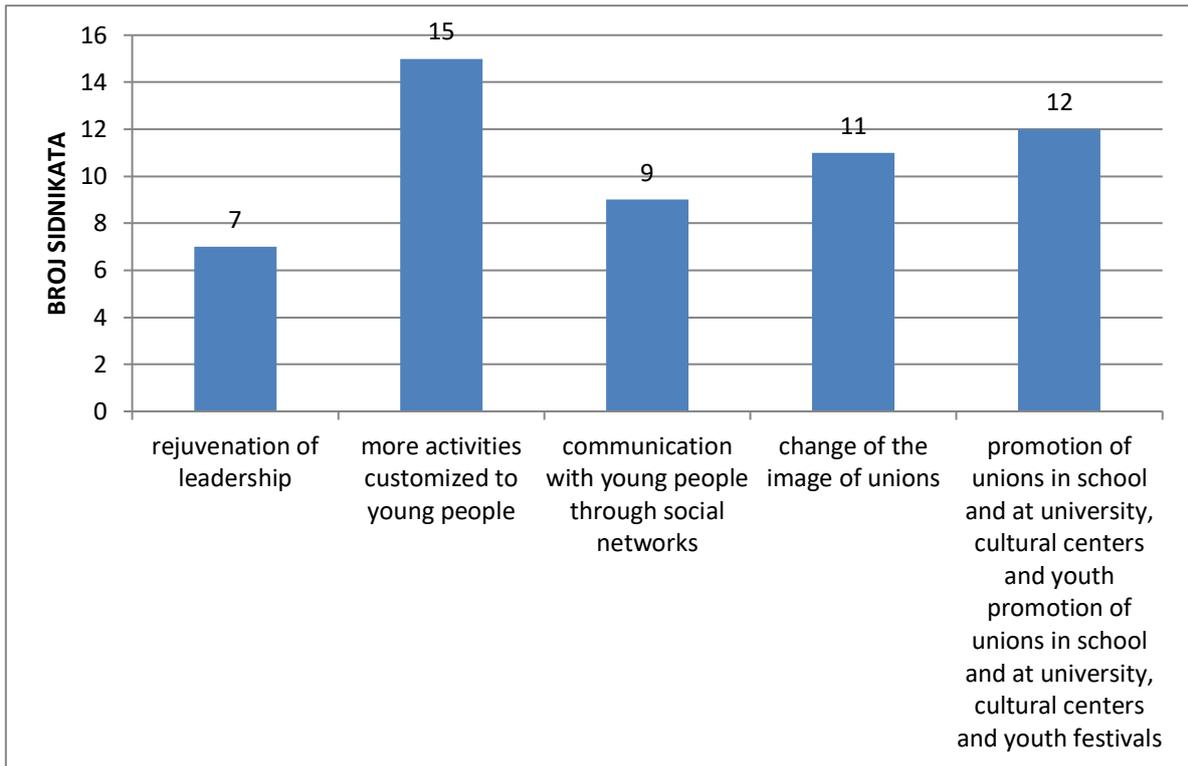


Chart 3. Changes that would contribute to increase of youth participation in the union

In conclusion, the respondents believe that there is a lack of young people involved in the union. The reason for this situation is the lack of information and ignorance of youth when it comes to unions. In order to change the current situation it is necessary to carry out more activities tailored to the youth, introduce education in final years of the high school and college, and change the union image and way of communicating with youth.

4. CONCLUSION

Multinational corporations are willing to transfer technology to the countries in transition and less developed countries and thus help them, but also provide itself with a competitive advantage and higher profits. They are the holders of foreign direct investment, and they are particularly important for relations between the global and national elements. Croatia represents more and more attractive place for direct foreign investments, i.e. multinational corporations. Due to the fierce competition that is present on today's market, the achievement of organizational goals is impossible without the joint efforts of employees and managers. Employers are becoming increasingly aware that the quality of their products and services on the market is not going to be possible without high-quality and satisfied employees, and

considering that number of employees is too big to negotiate on their own behalf, they are associating in the unions who are their representatives.

This empirical research is of pioneering character and raises many questions for future research. Certainly, more extensive research with a larger number of subsidiaries of multinational corporations in the Republic of Croatia would provide a clearer picture of the status and role of unions. It would also be interesting to make a comparison of the activities of unions of Croatian companies and subsidiaries of multinational corporations in the Republic of Croatia. Future research should analyze unions of one selected multinational corporation as well as the activities of unions in its subsidiaries around the world. It would certainly be useful to involve other stakeholders in the research, such as employees in order to perform various other conclusions on the work of unions and their role in the lives of employees.

REFERENCES

- Bilas, V., Franc, S. (2006), „Uloga inozemnih izravnih ulaganja i načini poticaja“, Serija članaka u nastajanju, December, pp. 4-11.
- Clawson, D., Clawson, M. A., (1999), „What has happened to the US labor movement? Union decline and renewal“, *Annual Review of Sociology*, Vol. 25 No.1, pp. 95-119.
- Ćelić, M. (2000), *Multinacionalne kompanije i ekonomska integracija*, *Ekonomist*, 7/8, pp. 14-15.
- Dabić, M. (2007), *Uloga multinacionalnih kompanija u promicanju tehnološkog razvoja zemalja u tranziciji*, *Zbornik Ekonomskog fakulteta u Zagrebu*, Vol. 5 No.1. pp. 29-42.
- Dunning, J., Lundan, S. (2008), *Multinational Enterprises and the Global Economy*, Second edition, Edward Elgar Publishing, Cheltenham
- Galetić, L. (2011), *Organizacija velikih poduzeća*, Sinergija, Zagreb
- Hernaus, T. (2012), „Cost-benefit sindikata na mikrorazini“, in: Pološki Vokić, N., Obadić, A. (ed.), *Evolucija sindikata: uloga sindikata u suvremenome društvu*, *Ekonomski fakultet*, Zagreb, pp. 81-96.

Hernaus, T., Pološki Vokić, N. (2012), „Dnevni red sindikata“, in: Pološki Vokić, N., Obadić, A. (ed.), *Evolucija sindikata: uloga sindikata u suvremenome društvu*, Ekonomski fakultet, Zagreb, pp. 37-66.

Marić, I, Pološki Vokić, N. (2012) „Sindikati kao organizacija civilnog društva“, in: Pološki Vokić, N., Obadić, A. (ed.), *Evolucija sindikata: uloga sindikata u suvremenome društvu*, Ekonomski fakultet, Zagreb, pp. 13-36.

Narodne novine (2014.) „Zakon o radu“, Vol. 93, No.14, pp. 42.

Norbaeck, P. J. (2001), *Multinational firms, technology and location*“, *Journal of International Economics*, Vol. 54 No. 512, pp. 449-469.

Rahimić, Z., Podrug, N. (2013), *Međunarodni menadžment*, Ekonomski fakultet u Sarajevu, Sarajevo

Tripathi, S. (2005), *International Regulation of Multinational Corporations*, Oxford Development Studies, Vol.33 No.1, pp. 117-131.