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**The Nature and Effects of Employment Practices During Transition: Evidence from Two
Manufacturing Firms in Lithuania***

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Abstract

By drawing on new survey data for large samples of individual workers for two Lithuanian firms we provide some of the first micro evidence on employment practices and the quality of jobs for an economy that was formerly Communist and which is also a new member of the EU. We find: (1) the types of industrial and labor relations practices that are emerging are mainly “low road” strategies; (2) low road strategies in Lithuania are associated with lower average outcomes like empowerment, peer monitoring, satisfaction and commitment than found for workers in comparable U.S firms for which similar data were gathered and where strategies were typically middle and higher road; (3) while practices on average in both firms are low road, there is much variation within firms in practices such as participation in teams; (4) the presence of elements of self-direction in online teams has important consequences for outcomes like empowerment, trust, communication, and work effort; (5) influences from the past and recent transition appear to persist as is evident from the consequences of sometime employee ownership for worker outcomes like intrinsic rewards, satisfaction, peer monitoring, and trust; (6) in accounting for these patterns of policies, as well as influences from the past and recent transition, there is also evidence of contemporary information failures.

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I. Introduction

In this paper, we draw primarily on new survey data for large samples of employees in two manufacturing firms in Lithuania to examine employment practices and the quality of jobs that are evident in an economy that was formerly Communist and is also a new member of the EU. Core production workers in the cases are low paid and low educated. These were also features of U.S. cases investigated in an earlier study that used similar questionnaires (Jones, Kato and Weinberg, 2003). Thus we are able to draw comparisons drawn between the two sets of cases concerning responses of management and employees to a rapidly changing economy that was increasingly integrated with the world economy. For firms in former communist economies such as Lithuania, we are particularly interested in examining the extent to which policies and practices in place during communism and early transition might still be exerting an influence on today's employment practices and employee attitudes. One focus is on the way that the privatization policies pursued in Lithuania, notably the incentives given to employees to assume ownership in their firms, may help to explain important aspects of the current situation. In addition, we seek to better understand the extent to which recent EU accession (May 2004) has produced changes in work organization and the quality of jobs. A principal focus is on the extent to which elements of high performance workplace practices (HPWPs), which the evidence indicates as having spread widely in many countries,¹ are taking hold and what effects they may be having.

While some of these matters have been examined for other transition economies, in the main there is limited information for firms located in the Baltic Republics. Moreover most existing studies use firm-level data. By contrast, our principal data are for large samples of individual workers that were obtained from face-to-face surveys for each case. While such data are always difficult to obtain, for firms in the former East Europe they are especially scarce.

Moreover, and again most unusually, our questionnaires were designed so as to enable us to undertake comparative analyses amongst workers in firms both within and outside Lithuania.

We reach several conclusions: (1) the types of industrial and labor relations practices that are emerging in these firms may be viewed as “low road” strategies; (2) low road strategies in Lithuania are associated with lower average outcomes like empowerment, peer monitoring, satisfaction and commitment than found for workers in comparable U.S firms for which similar data were gathered and where strategies were typically middle and higher road; (3) while practices on average in both firms are low road, there is much variation within firms in practices such as participation in teams; (4) the presence of elements of self-direction in online teams has important consequences for outcomes like empowerment, trust, communication, and work effort; (5) influences from the past and recent transition appear to persist as is evident from the consequences of sometime employee ownership for worker outcomes like intrinsic rewards, satisfaction, peer monitoring, and trust; (6) in accounting for these patterns of policies, as well as influences from the past and recent transition, there is also evidence of contemporary information failures.

In many respects our findings are broadly consistent with most previous scholarship both in terms of the beneficial outcomes associated with high road practices such as self-directed teams (Neumark and Cappelli, 1999; Appelbaum et al., 2000)² and the ways in which attitudes during early transition were found to be influenced by labor relations practices from the Communist past (e.g. Blanchflower and Freeman, 1995). However, our study is unusual because empirical analysis for transition economies has seldom been based on worker surveys. Moreover, many of these issues we examine have not been closely or recently investigated for firms in transition economies, including those in the “new” Europe. Consequently, several of the conclusions we reach are novel. For example, while it is a common belief that low road

employment practices dominate in many in transition economies, we believe that ours is one of the first studies to provide robust evidence on this matter. Also, we provide evidence of “attitudinal inertia” for a much broader range of attitudes and behaviors than was contained in previous studies. In particular, our evidence on outcomes that are more likely to be of interest to firms, such as peer monitoring and effort supply, are quite rare.³

The structure of our paper is as follows. In the next section we review the data and case selection. Here we also provide a brief summary discussion of important features of our two cases. In section three we draw on our case study data to explore how and why firms pursue their particular employment strategies. In the fourth section we explore the impact of these strategies by examining practices that are sometimes labeled high performance work practices (HPWPs) in more detail. One conclusion is that HPWPs such as self-directed work teams may offer important points of hope for both workers and firms in transitioning economies. When introduced in appropriate circumstances and in appropriate ways, these innovative contractual arrangements are found to provide important benefits to both employees and firms. In the final section we summarize our findings and offer some concluding comments.

II. The Cases

Our firms’ principal operations are in the capital city of Lithuania, Vilnius. In choosing the cases, one aim was to select establishments in manufacturing whose predecessors have historically were viewed as being important employers in the local economy as well as excellent employers during the communist era. Our expectation was that this would mean that the cases would primarily employ production workers with limited education.⁴ In addition we wished to have cases which had emerged from previous state-owned firms and which were likely, because

of the privatization methods pursued in Lithuania, to have some employees who were or once were owners of voting shares in the firm where they worked. Since we were interested in the impact of the movement on the market in a globalized and competitive context on managerial and employee outcomes, we also sought to select cases in sectors in which the nature and extent of restructuring and adaptation might be rather different. As part of that adaptation, we aimed to find firms in which at least some HPWPs such as self-directed teams were present and, if possible, there were differences in the incidence of such practices within the cases. Finally there was the crucial problem of securing cooperation from employers, especially since we aimed to administer a fresh employee survey to large samples of employees. In the end we were fortunate to end up with two firms that operate very close to each other in Vilnius, and thus which might be expected to be competing for workers in the same labor market, although their sectors of operation were undergoing quite different experiences during the study period.

Several kinds of data have been gathered. In all instances, lengthy interviews with diverse personnel, including managers from personnel and production have taken place. Additional information was drawn from other sources such as annual reports and other internal documents. Most important, for both firms we have collected survey data from individual employees – more than 880 surveys from face-to-face interviews with employees, representing more than 50% and 70% respectively of employees in the two companies. The worker survey data enable us to investigate the impact of employment practices in general, as well as specific HPWPs such as teams and self directed teams, as well as employee ownership, over a broad range of worker outcomes. Moreover, this worker survey data contains some measures that have not been used much before in the labor relations literature, notably for absolute and relative effort and peer monitoring, and which may be considered as outcomes that are primarily of interest to

employers.

Both of our cases are listed on the Lithuanian stock market and for many years both companies have ranked amongst the largest in Lithuania.⁵ FURNITURE is quite important in the local economy where it has been headquartered for more than 50 years. The firm was originally state owned and as well as operating a plant from that era it also opened a new plant in 2005. It has established a solid market niche in the broad area of manufacturing and selling furniture products, with a focus on production for export. In the main it produces furniture according to specifications placed by its customers. Its principal customer sells furniture that purchasers will assemble themselves.

The history of FURNITURE reaches back the end of the 19th century (1883), when a sawmill was established in Vilnius. It began manufacturing limited quantities of furniture after World War II. In 1963, the company was moved to its current location and experienced a dramatic expansion: new production facilities of 31000 sq. m were built and equipped with then modern production lines. During the former communist period FURNITURE was mainly involved in mass production for customers within the former Soviet Union. Until the 1990s, FURNITURE fulfilled orders placed through central planning authorities and branch ministries, and thus it mainly functioned as a production unit in a gigantic and complex centrally planned economic system. Most decisions concerning investment, sales, distribution, supplies and product development were made by a central and local government. However, through social relationships and “blat” (Ledeneva, 1998) management could at times secure decisions favourable to their own enterprises. Unsurprisingly, like most former state-owned enterprises, FURNITURE experienced serious difficulties in the early and mid 1990s; however, it has managed to overcome the problems posed by transition. The company’s economic performance has been constantly improving since 1998 when FURNITURE began to collaborate with IKEA

and is especially evident in increased employment and sales. Effectively, IKEA substituted for the distribution and sales of the products that the central planning system had provided.

FURNITURE is one of the few large industrial companies in Lithuania that, although facing serious difficulties until the late 1990s, has managed to overcome the problems posed by transition.

FURNITURE faces mainly domestic competitors, primarily four other large former state owned enterprises, and mainly competes for manufacturing contracts placed by large western companies. FURNITURE invests very little in its own product development, sales and marketing even in the domestic market. Thus, sales of Furniture in the Lithuanian market, including through its own retail outlets, have decreased from 4% in 2003 and to 2.5% in 2005. Overall, the post privatization period 1993-1998, was very difficult for FURNITURE, but this changed dramatically in 1998, when FURNITURE started cooperating with IKEA. Since 1998, IKEA has gradually become its main customer.

As part of the privatization process in Lithuania, employees at FURNITURE were able to buy company shares at a discount. Originally, in 1993, about 15% of employees at FURNITURE are believed to have bought shares in the newly privatized firm. Later we will examine the scope and effects of employee ownership today at FURNITURE.

Currently more than 90% of FURNITURE' output is exported mainly to customers in Western Europe. The company is doing well and sales have grown as follows during the last three years: 88M lit in 2003; 100.5 in 2004; 110.8 in 2005. Profit (after taxes) grew during 2003-2004 from 7.2 to 8.1M. Employment has also grown consistently from 610 in 1999 to 863 in 2003, 916 in 2004 and 1061 in December of 2005. Most of this growth has been for employees with the number of managers and specialists representing 111 of 610 employees in 1999 and 116 of 1061 in 2005. During recent years average nominal wages have also grown from 993 litas per

month in 1999 to 1208 in 2003, 1328 in 2004 and, in 2005, had reached 1428 litas. For employees the comparable figures are 847, 1003, 1115 and 1223, representing a growth of 44% in 6 years, whereas for managers and specialists average nominal wages grew by 79% from 1410 in 1999 to 2525 in 2005.⁶ An interesting innovation concerning benefits at FURNITURE was the introduction of a program whereby life insurance was provided for 150 core employees; the intent is to extend this program to another 50 employees. The aim of this initiative is to increase employee loyalty and retention

Total investment in 2004 and 2005 was 17.7 and 17.2 million Litass respectively, which amounts to more than 10% of total sales. Most investment has been to expand production capacity or to purchase of new manufacturing technologies. By contrast, investment in employee training is at low levels, with training usually taking place on-the-job and carried out in-house. The company also plans to commit 2 million Litass to co-finance a training program developed with a consortium of several furniture companies, for which are seeking EU support.

While retention of experienced employees has been an issue of concern for some time at FURNITURE, during our interviews it became apparent that concern was growing. About 200 employees had voluntarily left the company during the previous year. Since it is believed that this adversely affects margins and product quality, there was growing pressure from the main customer, IKEA, to reduce the high turnover of employees and also to cut costs. The fact that the company was operating at only 70% of total production capacity was also viewed as a key challenge to the company.

The other case COMPONENTS has also been quite important in the local economy, where it has been headquartered for almost 50 years. The firm was originally state owned when it was established in 1959. During the Soviet era it mainly produced for COMECON markets.

When Lithuania separated from what was the USSR about 15 years ago, COMPONENTS

faced a crisis as its traditional markets disappeared. However by securing new markets and partnerships with western firms such as Samsung, Thompson and Phillips, the firm successfully navigated the problems posed by transition. It was privatized in 1994—which is quite early for a Lithuanian firm (Mygind, 2000) and about 15% of employees are believed to have owned shares in COMPONENTS during early transition.

COMPONENTS is one of the few large industrial companies in Lithuania that has managed to sustain itself since the Soviet era. In late 1990s almost one third of the TV sets made in Europe contained the company's deflection yokes. However, this meant that the company was heavily dependent on that product—almost 91% of sales in 2004 were deflection yokes and more than 90% of COMPONENTS' output was exported mainly to customers in Western Europe and the only important domestic customer (AB Ekranas), the producer of TV tubes⁷. Throughout its history the firm has not faced any domestic competitors and, traditionally, its main competitors were firms in Slovakia, Hungary, UK and Poland.

However during the last few years its competitive situation has dramatically deteriorated as its principal markets has began to collapsed—the move to flat screens TVs meant that the components it produced for traditional TVs were no longer in such great demand as TV producers used new technologies that did not require traditional yokes. These problems were amplified by enhanced competition from low cost suppliers in East Asia, especially China. The company is not doing well and sales have fallen from 152.4M l in 2002 to 129.7 in 2003 to 126.6 in 2004 and lower still in 2005. A profit of 6M l in 2004 became a 9 M loss the following year. Clearly competitive pressures have grown and new and vigorous competition is coming, mainly from Asian competitors.

Employment averaged 2279 in 2002, 2228 in 2003, and 2185 in 2004. During that period

average nominal wages have grown slowly from 1021 litas per month in 2002, to 1042 in 2003, and 1068 in 2004. Whereas in 2002 time workers and pieces workers tended to get about the same by 2004 average wages of piece workers was 963 compared to 908 for time-workers. Specialist' wages have not changed much during this period. Data for the other plant and other shifts show similar patterns

The situation worsened during 2005 and about 800 employees were laid off and many of the remaining employees worked shorter hours and were unable to receive paid vacations etc. Employment has fallen again and in March 2006 about 1200 employees were still on the firms' books, though many of these are furloughed. Important developments during the period immediately after our visit (until May 2006) included a report that the case's main owners were changing, the company had begun to produce components for the newer flat-screen TVs and that further layoffs had continued. Currently the financial condition of the company means that not much new investment is underway.

III. Employment Practices and HR Strategies

A. Introduction

To provide more accurate information both on the nature of employment practices including HRMPs at each company, as well as their effects on employee attitudes and behaviors resulting from these practices, we administered surveys at each case. We followed similar procedures at each case. The surveys built upon earlier work by one of the authors that was used in studying firms elsewhere, including in the US.⁸ The specific questionnaires emerged after several iterations and after pilot interviews. Data collection at plants at each case took place during a one week period in March 2006. The surveys were administered during face-to-face

interviews with individual employees and, of course, trained native speakers were used in the process. At both cases the survey focused on production workers, though we did include some lower-level administrative personnel in the survey process. At FURNITURE we did not attempt to survey any of the 127 drivers that worked for the firm (essentially they worked alone making deliveries.) The upshot was that at FURNITURE we were fortunate to collect more than 540 surveys, and at COMPONENTS 310 responses, which gives us impressive participation rates of more than 70% at FURNITURE and 50% at COMPONENTS.⁹ In Tables 1-2 we present descriptive comparative data for the cases.

We present evidence on the sets of labor market policies and practices under three broad headings: (i) wage and employment practices and associated features of internal labor markets (Doeringer and Piore, 1971); (ii) HPWPs; (iii) skill, training and job content. As will readily become apparent, we find evidence that these firms offer and sustain employment practices and wage policies that often are broadly comparable and that the differences between our firms in all three broad areas are usually modest. Based on a previous classification we label these strategies as “low road.” In the final part of this section we briefly evaluate differing explanations as to why the case have adopted similar strategies, even though they face enormous differences in their economic contexts.

B. Labor Forces and Compensation and Employment Policies

Before noting some features of the labor forces in the cases, it is important to note that our study period (2005-6) encompassed a time during which, for many firms in Lithuania, the situation was viewed as being very positive. The Lithuanian economy continued to grow at a very fast clip, with GDP growth averaging 8.3% during 2003-5 and industrial production

increasing 14.3% during the first quarter of 2006.¹⁰ However this economic buoyancy together with the entry of Lithuania into the EU in 2004 meant that, for the first time since transition began, significant pressures began to emerge in some parts of the labor market. Most visible was the reduction in the supply of indigenous labor. Indeed during 1990 –2005, it has been estimated that about 13% of the workforce emigrated from Lithuania.¹¹ In part because of these outflows the continuing increase in demand meant that no longer were there plentiful supplies at prevailing wages of certain types of skilled employees, such as machine operators. As one manager at FURNITURE put it the problem for the firm became one of retention. Even unskilled employees began to have alternatives in the labor market than working for their current employer.

Table 1 focuses on summary comparative data of key labor market characteristics. In some respects the profile of the average worker at the two cases is pretty similar. Both firms hire their workers mostly from the local labor market. In both cases more about three in four workers have grown up in the Vilnius area and commuting time is essentially the same, averaging about 40/41 minutes. Also differences concerning average education are modest; in both firms, about 60% of the workforce has no college education at all. However, in many respects sharp differences exist between the average worker at COMPONENTS AND FURNITURE. Thus workers at COMPONENTS are typically older and have more experience in the labor market and more tenure than their younger counterparts at FURNITURE. Indeed, many workers at COMPONENTS have developed specialized skills at the firm and thus are apt to be experience more lock-in than their younger counterparts at FURNITURE who are apt to be more mobile. Also at COMPONENTS a greater fraction of the workforce is female and the average worker is more likely to be married. The above differences between the two firms are statistically

significant at least at the 5 percent level.

From Table 1 we also see that there is wide dispersion in ethnicity among employees at each case. At FURNITURE the biggest single group (who comprise about 49% of the workers) is Lithuanian nationals. But reflecting the turbulent history of Lithuania, 29% are Polish nationals, 15% are Russian and 4% are Belarussian. (A smaller number are other nationalities.) COMPONENTS too has sharp ethnic differences in its workforce though the makeup is quite different than at FURNITURE. Indeed at COMPONENTS, Lithuanian nationals turn out to be only the third biggest group. By far the most represented nationality are Poles, followed by Russians. At the same time we see that in most respects these differences in nationality are not associated with most labor market characteristics. One exception, however, is education where we observe that at both cases the average Polish worker is less well educated than her peers.¹²

Table 1 also contains information on incomes. Sharp differences exist. The average worker at FURNITURE receives more than 50% more than employees at COMPONENTS. Also there are interesting differences by nationality. In FURNITURE employees from Belarus are the lowest paid, in average, whereas at COMPONENTS they are the highest paid.

Neither case devotes much time to assessments, formal evaluations and developing career plans for employees. Indeed the HR departments are quite remote from ordinary production workers, and are more concerned with matters such as the administration of payroll rather than helping to manage human resources. Neither firm has a no-layoff policy and, particularly at COMPONENTS, concerns about job security are very prominent.

Both cases use systems of incentive pay. FURNITURE has had a system in place for about six years with details spelled out in the collective contract. Many employees receive part of their pay based on overall production and quality at the firm. A second component depends on

the particular job with individuals receiving different amounts of variable pay and mechanisms for calculation are again spelled out in the collective contract. Another component is more decentralized, and operates at the departmental level. Recently there have been important changes concerning the way that allocations were made to different departments and also how within a department allocations were made to different individuals. At this level it appears that the amount individuals receive is much very sensitive to judgements of individual supervisors on the shop floor concerning individual performance.¹³ COMPONENTS also has a bonus system that is based on company results and paid to all operators. Others (team engineers) receive a departmental bonus that can amount to 6-30% of base wages. Also about half of employees are paid by the piece and half by time.

All in all the data discussed so far suggest that the two cases are essentially characterized by a single strategy which we label *low road*.¹⁴ In both cases systems of performance evaluation are traditional and quite bureaucratic, and job ladders have few rungs. In both cases the systems of pay grades and incentive systems that have been developed are quite complex. The number of grades usually was surprisingly high given the somewhat limited range of skill requirements. Our interviews with workers suggested that the ways that the systems worked typically were not well understood. And often the supposed variable component parts of pay were in fact effectively fixed. While starting rates are sometimes quite good compared to other local firms, other wage and employment policies seem dated and replete with unnecessary rigidities. Employee turnover at both cases is high and growing. Of the two cases it does appear that FURNITURE is giving more attention than COMPONENTS to introducing improved policies-there appears to be an enhanced emphasis on how to retain and motivate employees to achieve goals and quality. To this end the firm has introduced a life insurance policy for about 150-200 workers at FURNITURE which it hopes will enhance motivation and retention.

C. Skill Requirements

Production at FURNITURE is a continuous process and takes place in two plants and, for most operations, there were two or three shifts. At the plant that we visited this involved three main processes in three different shops, within which there were several departments. In the first shop, the emphasis is on processing and the raw material (wood) is cut and veneer applied as needed. The shop has several production lines. This is the only shop in which there was piece work which was introduced in July. The shop was noticeable by their being only two supervisors all employees in this were viewed as constituting one large team. In a second shop there were two main departments for drilling and smoothing. Again there were several lines. Time rates of pay were used throughout. During one visit we observed an employee initiated meeting taking place. In the third shop the main business was assembling and packaging which took place in several lines. On some of these lines operators worked with quite sophisticated machines and much more extensive training was needed for employees to operate machines. In addition, our interviews also indicated that throughout the business there was an increasing emphasis on quality. This was reflected in part by more record keeping that identified defect rates at different stages

At FURNITURE managers claimed that much attention was paid to improving employees' skills. The focus was on training in-house, since it was proving increasingly difficult to secure new employees at the starting wage and with the appropriate skill. While they were still able to attract a plentiful supply of unskilled workers, there were shortages of people with technical education, notably machine operators and design engineers. Yet in truth we saw little evidence of a significant emphasis on training in this firm. It seems that at FURNITURE the

emphasis was on minimizing the level of skills needed and the amount of training provided. To do so, they have structured work with narrow job content. Also we saw little evidence of cross training. Work is organized so that workers do not need soft skills and work is highly controlled with lots of supervision.

At COMPONENTS Production at the case is a continuous production process and the principal product still accounts for more than 90% of output. When we visited the plant, we observed that production took place in several stages/lines in (three) different shops, within which there were several departments. In the first shop, there were two distinct operations. Operators, who were mainly male, focused on measuring performance parameters for the products while mainly women labeled products and were paid by the piece. In the second shop there were four assembly lines for closely related products. There were several stages in the assembly of the part (yoke) which had slightly different specifications across the four lines with all employees being paid by the piece. All workers were divided into three groups. Within the three groups there was job rotation and job flexibility though it is the foreman who decides who does what. If there were serious problems on the line the operators had the authority to shut down the line.

Perhaps reflecting arrangements in the past, employees are expected to be above average skill. Also COMPONENTS claimed that it paid much attention to improving employees' skills. In part this was because the case reported that it was increasingly difficult to secure new employees at the starting wage with appropriate skills. The problem of skill shortage concerned mainly technical personnel, notably machine operators. Training tended to be mainly in-house. Also the company's annual report suggests that the company did indeed pay attention to in-house training. In 2004 it reported spending 170,000 lita on 879 employees. While this represented less than \$70 per head this averages more than half a weeks wages for the average employee. Also

this represented an increase of 55% over 2003. Such a level compares quite favorably with many firms in advanced western economies.

In sum, based on our interviews with the HR director and the production managers, as well as our own observation, these features of limited skill requirements, limited job content and low training were evident in both cases, though perhaps especially so at FURNITURE. From the perspectives of skill both firms were essentially adopting low road strategies. There was, for example, no sense that teams were being used as a way to increase the job content and skill level, and hence the level of training. Neither human resource managers nor managers talked about the need for employees to feel that the company was making a commitment to them, and that they (the employee) could develop by staying at the firm. While competitive pressures were increasing at both cases there was no sense that the cases regarded training as essential and that they needed good trained workers who will stay. Rather their perception was that they needed to keep costs low and training was viewed as expensive. These firms are not trying to use cross training and teams to increase the content and skillfulness of the work.

D. HPWPs

At FURNITURE, since production was largely organized into several lines and designed so as to be very flexible and responsive to customers' needs, much use is made of online teams. During site visits we observed online teams in one department with each containing from 10-12 and mainly female workers. Formal meetings of these teams took place on a daily basis and, as part of larger groups such as departments, less regularly. Interviews with human resource professionals indicated that they believed that production was essentially organized so that the foreman gave instructions; arrangements were very hierarchical and traditional--a Taylorist-type situation prevailed, and online team were not expected to have any elements of autonomy. And it

was clear that there were no formal policies in place to support the activities of these teams—for example there was no training of team members in participatory activities. Nevertheless, other interviews with production managers and employees indicated that, at least in some teams, employees had elements of self direction—for example over task assignments.

In the main there did not appear to be many other formal communication channels at FURNITURE. However, many notice boards existed which contained, for example, production data for the business and records on defects. Also at FURNITURE most managers reported that believed that working conditions are very good with several mentioning resources such as the existence of a gym that was open for all employees.

At COMPONENTS a key part of the organization was the use of formal team meetings of production teams and departments, that regularly took place—for example, a prominent work practice was the use of daily meetings of online teams to discuss production. Moreover, a most interesting feature of the way in which work was organized, was the use of employee initiated meeting. We observed one such meeting taking place. COMPONENTS has other practices that provide for information sharing, including information boards and a newsletter.

As at FURNITURE, formal participatory teams have not been introduced. There is, for example, no formal system of training for team members or team leaders. There was no plan for team leaders do not rotate among team members. However, each team did meet daily to discuss production issues. While our sense was that teams did not tackle a wide range of problems such as workplace reorganization and tool innovation, mention was made that, least in some teams, there was team involvement in deciding matters such as and task assignments.

To provide more details on the ways that HPWPs played out at the cases our survey asked a number of pertinent questions. In Table 2 we report basic data on the incidence of

HRMPs. Unsurprisingly, we note that at both firms about eight in ten workers belong to (online) teams. What was much more surprising was that 67-68% of employees report that they perceive that their team was self-directed. There do not appear to be any differences related to nationality concerning membership in either teams or self-directed teams.

Concerning employee ownership, at both cases we see that employee ownership is essentially absent at FURNITURE, though about one in eight workers reports that they once owned shares at that firm. By contrast, at COMPONENTS, 9% of employees report that they currently own shares. This represents a much slower rate of attrition than at COMPONENTS. We also observe that there are some differences in share ownership that link with nationality—for example, at COMPONENTS relatively few Russians have ever owned shares, in contrast to FURNITURE where there is a larger fraction of employee owners among Russian employees than other nationalities.

In sum the evidence is suggestive that similar strategies prevail concerning HPWPs at both cases. What is clearly apparent (by omission) is what practices are *not* present. Thus there do not appear to be any *offline* or project teams that include front line employees. Also, there is little evidence of formal structures that provide for employee involvement, for example in neither case are there formal practices such as QC circles. In addition, while in both cases there are attempts to employ incentive systems of pay, in the main workers receive time rates of pay and there are no well functioning and transparent mechanisms such as gain or profit sharing for workers' rewards to be linked with enterprise success or team performance. However our interviews did reveal that at each case there were some nascent mechanisms for employee involvement, especially through online teams. Moreover, the survey evidence clearly indicates that many employees perceive that they work in teams that, in important ways, are perceived as being self-directed.

E. Why Do Firms Adopt mainly low road Strategies? Managerial Choice?

While there are some interesting differences between the cases—most noticeably with FURNITURE paying higher wages and COMPONENTS devoting more resources to training-- both firms mainly use low-road strategies. One obvious reason why this is so could be structural. Namely, the product lines being produced could somehow shape the type of managerial choice available. However, our data does not substantiate that claim. The skill level required of workers in the firms is, for the most part, fairly basic and most jobs do not require unusual precision or the use of sophisticated technology. That is the basic hard skill content in each of the firms is low. Workers are mostly engaged in simple forms of assembly or subassembly production using basic tools to engage in standard tasks. In the main there is an almost complete lack of computers or sophisticated tools being used in the production processes in these firms.

At the same time, as we have noted there are some modest differences between the cases in how they are dealing with this skill ceiling and other employment policies. It appears that it is FURNITURE that is most focused on organizing work into jobs with limited content and low skill levels. They had virtually no formal training, though sometimes newer workers were expected to learn the more skilled aspects of a job by informal training from more senior workers. In other words, it is FURNITURE in particular that has used the low skill level requirements as a cost saving advantage and thus sees no reason to enrich the job content and skill level by HPWPs and training. There does not appear to be a conscious effort to develop creative ways to increase the content of the jobs and the skills being used. At FURNITURE there are no comprehensive formal training programs and the limited formal training programs do not appear to be widely complemented by arrangements that enabled informal training of newer

workers by established workers. By contrast at COMPONENTS, more attention has been paid to training.

These differences concerning training (and in other respects such as wages) raise a vexing question about managerial choice. Why have managers mainly followed low road strategies, but sometimes approached problems such as that of the “skill ceiling” in differing ways, and in ways that differ from managerial practices used elsewhere? We believe that firm location does play a large role in explaining this outcome. It appears that employers and employees in Vilnius may be more isolated than managers in big cities in advanced market economies and that they face a set of problem and challenges that are arguably rather different than those that confront their counterparts in larger metropolitan areas elsewhere.

For one thing, we believe that is harder for managers in Lithuania to innovate. Managers face cognitive isolation both internally within a firm, and externally, within their social networks. Our research at the Lithuanian cases and cases in developed market economies indicates that the role of HR department in most former state enterprises is much more limited than in Western companies. HR personnel do not tend to be active members of different professional organizations. Even when HR managers have access to local trade associations, or an active Chambers of Commerce, or even informal business associations, these networks do not appear to be very useful in learning about *new* practices from other managers. Rather these networks are rather homogenous with network participants having similar (socialist) backgrounds, thus further strengthening external forces and producing what DiMaggio and Powell (1983) have labeled “mimetic isomorphism.” Companies learn from each other through imitation and, as in the past, they tend to adopt similar organizational forms and strategies. To date the movement towards international markets and work experience has produced only limited increases in the

heterogeneity of domestic professional networks (Meyer and Gelbuda, 2006). In addition to the external forces of mutual imitation, there exists an internal logic explaining the tendency to reproduce old routines under the new conditions of economic transition. Evolutionary theory of economic change (Nelson and Winter, 1982) explains how organizational knowledge, which resides in organizational routines, develops incrementally and is continually re-used and modified over time. This evolutionary theory provides a powerful explanation as to why organizations with a long organizational history and surrounded by stable environments, have difficulties in surviving under radically new environments. This is one explanation why we observe more innovations and changes on the production side compared to other areas in most former state enterprises.

This stalling of innovation may be compounded by the lack of new managerial talent. Unlike their counterparts in other market economies, our cases seldom (or never) get new professionals (with MBAs or equivalent qualifications) who come with "the latest ideas." Again, this diminishes the chances that managers will even be aware of or be thinking about new management practices. Third, this sense of isolation means that managers do not have easy access to universities and other institutions that tend to facilitate the discussion of new ideas, for example by arranging for one-day seminars.

Second, location in the Baltics also tends to effect workers. Until recently, workers have tended to have *fewer local employment options* than employees in more dynamic economies and, in turn, that has shaped labor relations. At both cases we found that most workers, no matter whether Lithuanian nationals or not, were apt to continue to live and work in the area in which they were born. This is compounded by the low education and skill level of many employees. Labor market experience is limited and usually restricted to one line of activity. Their sense of

geographical isolation has limited the job choices available to employees and, until 2004, was intertwined with their *legal isolation* which limited their ability to move to more developed market economies. Finally, employees face *an economic lock-in*-- they are dependent on their current salary and are not easily able to quit and search for alternative employment. These factors combine to create less incentive for firms to offer workers HPWPs. To be blunt, they can get away with not offering them. Workers perceive themselves as being locked in and having no place else to go.

Of course, there are other possible reasons for the strategies used by our firms. For example, the unwillingness of FURNITURE to implement extensive participation and training and to bear the costs of investing in participation and training is consistent with such firms having strong market niches and less pressure on profit margins (FURNITURE).

Many, including Appelbaum and Batt (1994) argue that globalisation and regulatory changes that have increased competition have compelled firms to consider means for improving productivity by the application of advanced HRM practices such as total quality management or autonomous teams. To date such pressures appear to have played little part in the introduction of HRMPs at our cases. To the extent that HPWPs have been introduced sometimes, as with the elements of self directed work teams, it appears that this is more a reflection of the past, and perhaps a consequence of the brigade system¹⁵, than to western ideas inspired by contemporary western managerial practices. Nevertheless, in interviews with managers, many mentioned that they faced growing competitive pressures in the 1990's in their product markets and tougher standards for product quality from their customers, including requirements for ISO certification. Accordingly the firm has been required to make strategic responses to a fast changing situation. Such pressures to change were felt especially strongly both before and after Lithuanian entry into

the EU. These pressures appear to be increasingly felt at FURNITURE as it strives to enhance product quality.

IV. The Effects: How HPWPs Matter For Outcomes

In this section, we use evidence derived from new worker surveys for the cases in Lithuania, as well as findings from similar surveys earlier for firms in the U.S., to make two claims.¹⁶ First, the strategy and economic context chosen by firms matters greatly for a variety of worker outcomes. Second, as such, we believe that the evidence indicates that, when properly introduced and supported, HPWPs may offer important points of hope for both workers and firms in transition economies and firms in emerging markets.

To develop these claims, we compare what are usually viewed mainly as worker outcomes between the cases. As discussed above, both firms are similar sized and quite comparable in many respects and employees in both cases perceive that, in important ways, their online teams are self-directed. We make two kinds of comparisons. First we make *inter*-firm comparisons – we compare outcomes between these two manufacturing firms (and, on a more limited basis, with findings based when similar methods were used to gather data for US firms) so as to attempt to discern the possible gains from HPWPs in firms in transition economies. Second, we make *intra*-firm comparisons for each case over a range of outcomes. Our focus is in three areas: (i) between participants and non-participants in teams ; (ii) between participants and non-participants in self-directed teams; (iii) for those who are currently or were once employee owners with those who have never owned stock in the company where they work. These three sets of comparisons enable us to study the impact of institutional differences such as participation in self-directed teams on firm and worker outcomes, having controlling for firm heterogeneity.

Gains from HPWPs: A Comparison of the CASES

To provide context and a link with some earlier work, first we attempt to see how the *average* situation for all employees in these cases compares with what has been observed elsewhere. In fact since exercises have been undertaken that use instruments with identical questions for some comparable cases in US manufacturing, we are able to make comparisons with findings from that study.¹⁷ Our list of measures includes not only standard gauges used in prior work, such as Appelbaum, et. al. (2000), but also measures rarely used in the literature on HPWPs, notably assessments of absolute and relative work effort and peer monitoring.¹⁸ While we recognize that such comparisons must always be viewed with caution, we believe that this is a useful point of departure. Our preliminary findings on these selected matters are reported in Table 2. In reviewing the responses it is important to remember that in some cases the measures are such that low values on the scales correspond to what are usually regarded as “good “ outcomes—comparatively lower numbers indicate, for example, more job satisfaction and higher empowerment.

The entries in columns (3) represent simple averages obtained from three manufacturing cases in central NY. From the entries for job satisfaction we see that, as expected, on average workers in both Lithuanian cases are less satisfied with their jobs than are employees at three US cases. Consistent with this finding, we also see that intrinsic rewards from working are also found to be higher for workers in US firms than in Lithuania though no differences are evident on the matter of job stress. Two questions were asked concerning empowerment. Again, it is the case that US workers perceive that they are more empowered than their counterparts in Lithuania and report that they have more say about what happens on their job and also more decision-making power. Compared to workers in the U.S. firms, responses to several questions together

indicate that workers at both Lithuanian cases are less committed to their firms. On the matter of trust in management, unsurprisingly employees at COMPONENTS, which is undergoing drastic downsizing, tend to be quite distrustful of their management. However workers at FURNITURE are found to have more trust in their management than employees on average in the US cases.¹⁹ Even more interesting findings emerge concerning the findings for the two questions on peer monitoring. At both Lithuanian cases employees are much more apt than workers at US firms to say something to a co-worker who is seen to slack off. Answers to the second questions also indicate that they have, in fact actually done this. Finally employees at COMPONENTS report that they supply much more absolute effort than does the average worker and workers at FURNITURE.

In sum similar to earlier findings during early transition (e.g. Blanchflower and Freeman, 1995) we find evidence that attitudinal inertia has persisted since the demise of Communism and even since accession to the E.U. with employees in Lithuania having lower job satisfaction than employees in comparable cases in the U.S. We also find that employees continue to have less voice at their workplaces than do their American counterparts. While findings on effort supply are not clear cut, the striking finding that employees in Lithuania are more apt to engage in peer monitoring than US workers is suggestive that, in this respect, behavior is likely to have changed considerably since the communist era. Since data for the US firms are for firms that are judged to be either middle or high road in their employment practices and typically outcomes are higher than for the low road Lithuanian firms, we cautiously interpret these comparisons as providing additional, international micro evidence of the link between low road policies and inferior outcomes.²⁰

When we turn to comparisons between the two cases, we see that at FURNITURE,

workers work less hard and it is also apparent that they are less likely to help their fellow workers and to engage in peer monitoring. At the same time, they view themselves as being more empowered, have higher job satisfaction and higher intrinsic rewards. Yet they report significantly higher levels of job stress. In other areas we do not detect any clear differences between the cases. In other words, there are no clear and consistent differences between the two firms. Perhaps reflecting the existence of packages of employment policies that overall we judge to be low road and yet which do contain some interesting differences, the comparative picture is muddled.

An Internal Comparison between Participants and Non-participants within Firms

We begin by reporting comparisons for outcomes within each case between participants and non-participants in teams. Such comparisons help to separate the effects on worker outcomes of participation in teams from other unobserved firm characteristics that may affect worker outcomes. For both cases while nearly all employees *formally* belong to online teams, it may not appear to be feasible to compare outcomes for participants and non-participants within these firms. Nevertheless, we still believed it to be worthwhile to determine if employees in these firms actually perceived that their participation in a team is associated with different outcomes. Indeed we found that this was the case. Second we examined the effect of participation in teams that are viewed, at least in some significant respects such as task assignment, as self-directed. Recall that at both cases about two in three workers reported that they were members of self directed teams. Any observed differences in worker outcomes between the two groups are interpreted as the effects of belonging to what might be regarded as a fledging self-directed team. Our third comparison is revolves around employee ownership. Here we examine differences in mean outcomes for employees who either currently do or once did

own shares in the case at which they work with those employees who have never had an ownership position. Our findings are reported in Tables 3-4.²¹

We begin with our analysis of the data for FURNITURE, reported in Table 4. One clear finding is that, of the three practices, it is membership in self-directed teams most often yields favorable outcomes. That is, for most of the nine areas that we investigate there are clear differences associated with membership in a self-directed team. Compared to those who do participate in self directed teams, members of self directed teams engage in more peer monitoring. They also supply more discretionary effort and perceive that they are more empowered. Such employees have higher commitment to and trust in their firm. In addition they report that they are more satisfied with their jobs and that their job provides them with more intrinsic rewards. Also, and importantly, participants in self-directed teams do not report any effect of membership on job stress.

By comparison, when we examine the impact of membership in online teams and employee ownership at FURNITURE while membership in teams and employee ownership are sometimes found to have beneficial effects, their effects are not so extensive as is membership in self-directed teams. For example, team members report more frequent communication with workers outside of their work team or work group and also with technical experts. Also there is some evidence that team members engage in more peer monitoring than do non-team members. But unlike participation in a self-directed team, participation in a team is not found to affect several other outcomes, including job satisfaction, commitment or intrinsic rewards. Employee owners also are apt to communicate more frequently than non-owners. But ownership is not found to be associated with many outcomes including empowerment and job satisfaction.

Turning to COMPONENTS in many respects a similar picture emerges from the data (see Table 4). This is perhaps clearest concerning the impact of membership in self-directed

teams. Compared to either team membership or employee ownership, membership in self-directed teams most often yields favorable outcomes. Employees in teams that are perceived as self-directed engage in more peer monitoring and supply more effort. These are outcomes that are likely to be of especial interest to firms since, as theorists have long argued²², it is channels such as these that are postulated to eventually produce benefits to the organization and to “bottom-line” indicators of performance. Moreover employees in self-directed work teams have higher job satisfaction and better intrinsic rewards. One clear finding is that, as expected, participants consider themselves more empowered than do non-participants They report that they have more commitment to the firm and also that they engage in more frequent better communication with other groups in the firm, such as technical experts outside of their team. In addition they have more trust in the firm. Membership in a self directed team is not found to be associated with different levels of job stress.

As with furniture, in COMPONENTS membership in teams and employee ownership and are also sometimes found to have beneficial effects, though this happens much less often than does membership in self directed teams. This is the case, for example, concerning team membership and two measures of peer monitoring/teamwork. More importantly, in some respects there are effects but these are in the opposite direction to what one might expect in a well-functioning system of employment policies. For example, contrary to what the advocates of HPWPs would expect, employee owners are found to be *less* likely to monitor their peers and also they are *less* committed to the firm. In accounting for such puzzling phenomena it is likely that the current situation at the firm—enormous job insecurity and a halving of the work force in less than a year, will have played a role. Also, for employee owners, the plunging value of their shares, is likely to have influenced outcomes.

V. Conclusion: Findings and Implications

Based on two case studies of manufacturing firms in Lithuania and multiple data sources for these firms, though mainly new survey data obtained from face-to-face surveys, we are able to draw some firm conclusions. In all the major aspects of industrial and labor relations that we examine, and in particular, the three broad areas of wage and employment policies, skill and training and HPWPs, we find that practices in our cases are reasonably similar over a wide range of practices so that we classify both firms as pursuing “low road” policies. These low road strategies in Lithuania are associated with lower average outcomes like empowerment, peer monitoring, satisfaction and commitment than are found for U.S firms for which similar data were gathered and where strategies were typically middle and higher road.

However some differences do exist in these three areas across the cases, such as concerning training. Hence, even for manufacturing firms that are pursuing low road policies, the existence of policy differences means that for firms to survive and flourish in Lithuania, the evidence does not suggest that the pressures arising from the need to compete in an increasingly globalized and rapidly changing marketplace require a single policy configuration. Rather, the evidence suggests that a limited range of managerial choices are possible. That is our findings do not support a simple neoclassical economic perspective, whereby firms would be viewed as having very limited degrees of freedom to operate in competitive labor and product markets. Rather we interpret our findings as offering support for an institutionalist approach, which predicts that there is much greater scope for managerial discretion in choosing, for example, appropriate employment policies.

Another clear and compelling finding is that elements of high road policies, notably self-

directed work teams, are often present and yet the incidence of such policies varies within firms. Moreover, HPWPs are often found to yield favorable outcomes. By participating in such practices, workers feel more empowered, satisfied, committed, trusting, communicative, and committed to the organization. Moreover they work harder and engage in more peer monitoring. Based primarily on evidence derived from worker surveys, this finding is strongly established for workers in both cases. In turn this implies that managers have an even greater range of discretion than the simple appearance of low road policies might suggest. Indeed, undertaking policies to support and foster such innovations is a strategy that firms such as our low road Lithuanian firms might undertake in order to escape what we might label a low equilibrium trap, with the use of higher road policies likely having positive complementary effects.

As such these findings largely dovetail with those from other studies that have been obtained largely for advanced industrialized countries. Thus many other researchers (e.g. Doeringer and Piore, 1971) have found evidence in favor of diversity in employment outcomes. Others have also noted how unbalanced packages of employment policies can have unexpected outcomes (e.g. Ben-Ner and Jones, 1995.) Also, several scholars (including Neumark and Cappelli, 1999; Appelbaum et al., 2000) have established that HPWPs may have beneficial effects. As such our findings tend to support theorists who take an optimistic view of the effects of HPWPs on worker outcomes (e.g. Appelbaum et al., 2000). By contrast, our findings do not support those who predict outcomes of HPWPs that are less beneficial to employees (e.g. Goddard, 2004). But it is important to recall that the firms and workers that we investigate tend to be different from those covered in most of the existing literature. Thus our study is one of the first to report findings on these diverse issues when most production workers are low educated and firms are medium sized and, most important, are located in labor markets in transition

economies. It is reassuring to find that the hypotheses in the received literature, and largely based on firms and workers with other characteristics, also carry over to our cases. Moreover, our findings also provide some support for our hypotheses concerning the importance of path dependence. Thus arguably the role of geographical isolation may help to account for the lower level in the incidence of HPWPs. Also our findings on employee ownership, especially for COMPONENTS, show that privatization did not always produce the benefits for employee and firm behavior that many expected. Of course, in view of the failure of governments and firms to introduce measures designed to support employee ownership, such outcomes are not entirely a surprise.²³ Finally, our findings arguably include improved measures compared to those contained in previous studies on certain worker outcomes, notably such as absolute and relative work effort and peer monitoring.

Even though our findings are only for two cases, since the cases face very different economic environments and also have accounted for about 2% of employment in industry and construction, we cautiously suggest that our findings have several implications not only for Lithuania but also for firms and workers located in other transition economies. Our findings on the beneficial effects of HPWPs such as self directed work teams potentially have important implications for economic development. The real question for development is *jobs*. Communities tend to do better when they increase the stock of jobs both quantitatively and qualitatively. An economic development strategy for communities such as those in Lithuania ought to consider a potentially important role that HPWPs might play in sustaining the development. Bringing in more HPWPs may mean more “good jobs” (better pay and benefits, skills enhancing, meaningful, stable) to Lithuanians and perhaps play a role in stemming the rapid rates of out-migration by many Lithuanians. It is also important to introduce strategies that enable HPWPs

to be nurtured even as the environment facing firms becomes more difficult. Given the ability of employers to adopt diverse employment strategies, it is important that firms and employees be made aware of the beneficial effects of high road policies, including HPWPs. Arguably consideration should be given to public policy that promotes the dissemination of information concerning best business practices such as HPWPs. Also, as with fiscal incentives to encourage adoption of financial participation schemes in “old Europe” countries, consideration of fiscal policy such as tax incentives for the adoption of particular HPWPs might be investigated for new European countries.

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Endnotes

¹ For example, for the U.S. see Handel and Levine (2004) and for Japan, Kato (2000). While there do not appear to be any detailed data for Lithuania or other Baltic Republics, the broad situation in the EU has been recently examined in Hashi et al. (2006). For neighboring Finland see Kalmi and Kauhanen (2005). See also D'Art and Turner (2002).

² However there is an important set of literature that is less optimistic as to the potential positive impact of HPWPs on worker outcomes. See, for example, Goddard (2004.)

³ One of the first studies in this broad area appears to be Stafford (1980). More recent work includes Ros (2003) and Jones, Kato and Weinberg (2003.)

⁴ This was a focus of a previous study of US firms that used similar instrumentation. See Jones, Kato and Weinberg (2003).

⁵ According to Ministry of Social Security and Labour (2003:14) total employment in industry and construction in Lithuania in 2003 was about 404,000. As such our cases then accounted for more than 2% of employment in industry and construction. See also O.E.C.D. 2003.

⁶ Data obtained from the Annual Reports for the National Securities committee 2005 and 2002.

⁷ Soon after our survey was completed, this main customer went into bankruptcy. It was unable to withstand competition from global companies and emerging Asian competitors.

⁸ Again see Jones, Kato and Weinberg (2003).

⁹ In fact COMPONENTS reported that there were 835 operators on their books at the time of the survey. This would imply that our participation rate is 310/835. However, only about 600 of the 835 operators on the books in fact worked during the turbulent period when our survey was undertaken. So we believe that the true participation rate is closer to 310/600.

¹⁰ See Statistics Lithuania, 2006.

¹¹ According to the Lithuanian Statistics Department (Press Release of 15.03.2006) 334,000 Lithuanians emigrated during this period. The population of Lithuania in late 2005 stood at 3.4 million.

¹² At both firms about 15% of the workforce is a member of a labor union. The nature and effects of labor unions at the two cases is explored in Jones and Gelbuda (2006).

¹³ As such this might be viewed as a step towards performance related pay. However implementation (and employee motivation) is hampered by a record keeping system that is paper-based.

¹⁴ See Jones et al. (2003) where low road policies are distinguished from middle and high road respectively.

¹⁵ For discussions of brigades during the Soviet era see, for example, Burawoy (1992) for Russia and, for the case of Bulgaria, Jones and Meurs (1991) and Jones and Spenner (1998.)

¹⁶ We consider diverse worker outcomes, including not only outcomes directly in the interests of the workers (such as job satisfaction, intrinsic rewards, and stress) but also outcomes directly in the interests of the organization (such as organizational commitment and trust). While these are outcomes that are fairly standard in the literature (see, for example, Appelbaum, et. al.,2000) our evidence for effort supply and peer monitoring is more unusual. Moreover, while our measure of absolute effort has been used before in the literature (e.g. Stafford, 1980) our measure of relative effort has been used less often.

¹⁷ See Jones, Kato and Weinberg (2003) for an extended account of the U.S. cases and the survey method. The U.S. cases are located in central NY, mainly employ low educated employees, and pay wages that average about \$10.00 an hour.

¹⁸ However, recently more attention has been devoted to trying to measure such concepts. For example, see the references in Footnote 3.

¹⁹ However the relatively high average value for the US cases reflects the situation at one case that continues to have embittered labor relations, including strike activity. (See Jones et al, 2003:510.)

²⁰ For evidence for the US see Jones et al. (2003).

²¹ In each instance, and reassuringly, we find that the basic worker characteristics of participants and non-participants are quite similar.

²² See for example Putterman (1982) and Kandel and Lazear (1992).

²³ Several studies of western firms also find that employee ownership is not always attended by benefits to firms and workers. See, for example, Logue and Yates (2001) and Freeman et al. (2000).