

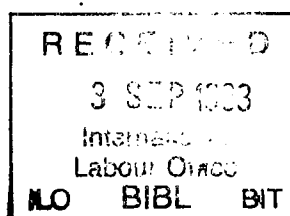
WORLD EMPLOYMENT PROGRAMME RESEARCH

Labour Market Analysis and Employment Policies

Working Paper No. 63

Employment Dynamics in Bulgarian Industry

Guy Standing, Gyorgy Sziraczki and James Windell



Note: WEP Research Working Papers are preliminary documents circulated to stimulate discussion and critical comment.

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PREFACE

Labour markets play important roles in determining the economic success of stabilization and structural adjustment policies, and also transmitting the impact of those policies to the working population. Amidst the economic revolution occurring in Central and Eastern Europe in the 1989 - 1992 period, perhaps no country was as adversely impacted by the sudden changes in trading patterns and input prices as Bulgaria. Cut off from the guaranteed markets and supplies of factors, including energy, that had been the centre-piece of the COMECON system, the Bulgarian economy was forced to confront – and react to – a new set of economic realities. How well did the Bulgarian labour market perform in meeting that challenge?

In order to help answer that question, in 1992 the International Labour Organization (ILO) undertook the Bulgarian Labour Flexibility Survey (BLFS) of industrial employers. The survey focused on industry, not because agriculture, trade and services are unimportant sources of employment and income in Bulgaria, but rather because widespread structural adjustment in the industrial sector was seen as the key to the future economic prosperity of Bulgaria as it becomes more fully integrated into the international economy.

The initial results of the BLFS were presented in a series of ten papers at a *Conference on Labour Market Reforms in Bulgarian Industry*, held in Sophia 18 - 20 May 1993. This Working Paper began its life as one of those ten papers. It is a collaborative effort between the Active Labour Market Policies Branch of the ILO in Geneva (Gyorgy Sziraczki and Jim Windell) and the Central and East European Team of the ILO in Budapest (Guy Standing). It is being distributed in its present form because the ILO believes that its results and implications will be of interest to a wider audience (including labour economists, policy makers, and researchers) than attended the Conference in Sophia. Additional copies of this Working Paper, or copies of the other papers based on the BLFS, may be obtained from:

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Questions about, comments on, and/or criticisms of this Working Paper are invited. They may be sent to the authors at the above address.

August 1993

William Clatanoff
Chief, Active Labour Market Policies Branch

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EMPLOYMENT DYNAMICS IN BULGARIAN INDUSTRY

by

Guy Standing, Gyorgy Sziraczki and James Windell¹

1. Introduction²

In 1990-91, following the collapse of the COMECON system, the Bulgarian economy plunged into a deep structural crisis. For a long time, Bulgaria was regarded as a slow starter in the reform process, yet it was pressured into a whole series of changes, classified rightly or wrongly as "shock therapy", in which its economy was buffeted and its people confronted by a sharp drop in living standards, worrying levels of poverty and growing open unemployment.

Bulgarian industry had to adapt as best it could, without adequate markets, raw materials, capital or credit markets. It was pressured to change almost all aspects of its production and distribution process, including its labour and employment practices. In short, an era of restructuring had rudely arrived.

In moving into the international economy, Bulgarian industry has been required to restructure its employment, and in that context it seemed useful to take stock of what was happening in the industrial labour market, to assess the problems and the changes taking place. Accordingly, in early 1992 the ILO launched the *Bulgarian Labour Flexibility Survey*, henceforth called the BLFS.

The BLFS was conducted in a representative sample of 501 industrial establishments in four major industrial regions of the country – Sofia (including Pernik), Burgas, Pleven and Plovdiv. With completed data from 461 of the 501 factories, this meant an overall response rate of 92%, which is high for this type of survey. The completed sample employed 232,407 workers in December 1991.

In what was a two-round survey of managements, based on two questionnaires, detailed information was collected on employment levels and structure, vacancies, labour turnover, production and distribution of output, capacity utilisation, ownership and management forms, wages and benefits, recruitment practices, training and retraining, working practices, industrial relations, payment systems and technological change. Lengthy interviews were carried out in all factories, many of which were visited several times. On many issues, retrospective information was collected to enable the analysis to cover changes between 1989-92, and on some issues data on planned or expected changes in 1992 and 1993 were also collected.

Although more than a quarter of the firms in the BLFS had changed their form of ownership between 1989 and 1992, it is important to remember that these firms remained to a large extent under state control. No less than 87% of limited liability companies and 64% of joint stock companies, for example, reported that the final selection and appointment of senior management remained a state or

¹ International Labour Office.

² This paper was originally presented in draft form at the *Conference on Labour Market Reforms in Bulgarian Industry*, held in Sofia, May 18-20, 1993. The Conference was jointly organised by the ILO's Active Labour Market Policies Branch (Geneva) and the Central and Eastern European Team (Budapest) in close cooperation with the Bulgarian Ministry of Labour and Social Welfare.

ministry decision. Although throughout the following analysis we refer to such firms as "privatised", it is perhaps more appropriate to call them semi-privatised or commercialised as they are not yet full-fledged private companies.

To obtain some comparative information on the emerging private sector, a survey of 100 newly set-up, small-scale private firms in Sofia and Plovdiv (henceforth referred to as the *Bulgarian Private Sector Survey*, or BPSS) was carried out by the ILO in early 1992. This paper focuses primarily on the results of the BLFS, complemented by analysis from the BPSS.

The Bulgarian industrial sector clearly faced major pressures in the period covered by the BLFS and BPSS, and the impact on employment might have been expected to be correspondingly severe. However, there are a wide variety of employment responses that enterprises might take in such circumstances, and some commentators believe that the transition process within central and eastern Europe results in a slow process of job-shedding, which will only occur on a massive scale in the wake of privatisation and the resultant imposition of a "hard budget constraint" on managements.

The main issues addressed in this paper are the changes in the level of employment, identification of managerial responses to the crisis and their alternative employment strategies in response to pressures to cut labour input. A major underlying question is: Has employment *restructuring* begun? Our principal hypothesis is that there has been "downsizing" but little restructuring.

2. The Size Structure of Industrial Employment in 1989

Throughout central and eastern Europe, the average size of industrial establishments under the command economy system was large by international standards, mainly because of state ownership and the "stability" of enterprises, with very few ever going out of business. Bulgaria was no exception to this pattern.

According to the BLFS, at the end of 1989 the average employment size was 742 and the average number of years they had been in operation was 34 years, with the largest being in mining (table 2.2.1). In terms of employment, State-owned firms were generally the largest, and – probably reflecting the industrial composition of the areas – the average size of establishment was largest in the regions of Plovdiv and Pleven. These were the principal employment structure features at the outset of the reform process.

Table 2.2.1: Employment Size Distribution of Establishments, by Industry, 1989.

(% distribution of size category among sectors)

N = 461

Industry	Employment Size 1989				Mean employment	% total employ.
	<250	250-499	500-750	750+		
Food	15.7	41.4	14.3	28.6	682	14.4
Textiles	15.5	22.4	20.7	41.4	778	13.6
Wood/Paper	22.9	34.3	14.3	28.6	625	6.6
Engineering	27.0	30.6	17.1	25.2	767	25.7
Electronics	14.0	28.0	10.0	48.0	923	13.9
Chemicals	17.9	25.0	25.0	32.1	699	5.9
Non-met.	13.6	22.7	27.3	36.4	702	4.6
Mining	7.1	42.9	7.1	42.9	1532	6.5
Other	19.0	50.0	15.5	15.5	491	8.6
All	19.1	33.4	16.6	30.9	742	100.0

3. Employment Changes 1989-91

In the sample of factories covered by the BLFS, between December 1989 and December 1991 employment fell by 31.3% (weighted mean), from a total workforce of 331,010 in 1989 to 232,407 in 1991. Employment rose in less than three percent of establishments, and in almost a third it fell by 40% or more. In a country where industrial employment had been growing for decades, the collapse of industrial production and employment was of cataclysmic proportions.

The mean employment size dropped from 742 in December 1989 to 504 in December 1991. Labour shedding measures such as retrenchment were not the only means by which establishments 'downsized' their workforces; the break-up of large establishments into smaller units also played a role. But it is important to stress that, while surprisingly widespread, this was only a minor part of the story. Managers were asked whether any part of the establishment had been sold, leased or transferred during the previous two years and, if so, what share of the workforce was lost in this way. Of the 17.9% that had detached a production or service unit in 1990 or 1991, the average share of workers leaving with the detached unit was 17.6% (weighted mean). Yet overall, if we exclude workers leaving because of detachment, the average decline in total employment is only cut from 31.3% to 28.9% for the full sample. The employment changes reviewed in the following include the "detached" workers in the calculations.

There were wide employment change differences between industrial sectors (table 2.3.1). The chemical and mining sectors cut employment the least, about 20%, and the electronics and non-metallic minerals industries the most, with a 38.3% decline in electronics (although those industries

classified as in "other" manufacturing activities had the greatest decline, a massive average cut of 45.2%).

Firms with between 500 and 750 workers in 1989 cut employment the most (-38.6%). In almost half of those factories employment fell by 40% or more (table 2.3.2). Employment fell most in cooperatives (-44.1%). Employment cuts in the state sector and joint stock and limited liability companies averaged about 30% (table 2.3.3).³ By contrast, over 40% of firms in the BPSS increased employment during 1991. Employment fell somewhat more in Sofia than in other regions (table 2.3.4), a source of additional concern because it is the country's largest industrial centre.

As an indication of the impact of production on employment, there was a close relationship between sales change and employment change. In those establishments where total sales rose (unadjusted for inflation), employment fell by 29.2%, whereas in those where sales fell employment fell by 38.5%.

In 1990 and 1991 there was a shift in Bulgarian industry towards export markets, with the average share of output exported increasing by 4.8%, most of this coming from hard currency exports. Those establishments achieving a strong export performance would have been cushioned to some extent against the slump in domestic markets. Table 2.3.5 shows that highly export-oriented firms cut employment much less than non-export oriented firms. Those that exported over 50% of their output (13.8% of the total) cut employment by 'only' 25.8%, while those that relied more on the domestic market cut employment over 30%.

Table 2.3.1: Employment Change, 1989-91, by Industry
(% sectoral distribution and weighted mean percentage change)

Industry	Percent Employment Change 1989-91				Mean % Change
	Fell 40+	Fell 39.9-20	Fell 19.9-.01	Rose	
Food	10.0	40.0	42.9	7.1	-25.5
Textiles, etc.	32.8	36.2	31.0	-	-31.6
Wood/paper	11.4	48.6	37.1	2.9	-25.1
Engineering	34.2	46.8	16.2	2.7	-32.0
Electronics	44.0	42.0	14.0	-	-38.3
Chemicals	28.6	42.9	25.0	3.6	-20.3
Non-met. min.	27.3	50.0	22.7	-	-33.5
Mining	7.1	50.0	35.7	7.1	-22.2
Other	60.3	29.3	6.9	3.4	-45.2

³ It should be noted that table 2.3.3 gives employment change data by the establishment's property form in 1991. All limited liability firms and all but one of the joint stock companies were solely owned by the State in 1989, making employment change comparisons by property form somewhat dubious, except in the comparison of State and cooperative establishments.

Table 2.3.2: Employment Change, 1989-91, by Employment Size, 1989
 (% distribution within size categories and weighted mean percentage change)

Size 1989	Percent Employment Change 1989-91				Mean % Change
	Fell 40+	Fell 39.9-20	Fell 19.9-.01	Rose	
<250	25.9	45.9	24.7	3.5	-30.9
250-499	34.2	35.6	26.2	4.0	-31.8
500-749	45.9	37.8	14.9	1.4	-38.6
750+	23.9	47.8	26.1	2.2	-29.8

Table 2.3.3: Employment Change, 1989-91, by Current Property Form
 (% distribution among forms of ownership and weighted mean percentage change)

Property Form	Percent Employment Change 1989-91				Mean % Change
	Fell 40+	Fell 39.9-20	Fell 19.9-.01	Rose	
State	28.8	44.2	23.6	3.4	-30.5
Cooperative	62.5	20.8	14.6	2.1	-44.1
Jt. Stock	18.4	44.7	34.2	2.6	-28.4
Ltd. Liability	27.9	44.1	26.5	1.5	-30.2

Table 2.3.4: Change in Employment, 1989-91, by Region
 (% distribution within region and weighted mean percentage change)

Region	Percent Employment Change 1989-91				Mean % Change
	Fell 40+	Fell 39.9-20	Fell 19.9-.01	Rose	
Sofia	35.8	41.0	22.0	1.2	-34.8
Plovdiv	23.4	44.1	28.8	3.6	-28.1
Pleven	31.0	36.8	28.7	3.4	-29.6
Burgas	33.3	45.3	16.0	5.3	-31.6
All Regions	31.4	41.7	24.0	2.9	-31.3

Table 2.3.5: Change in Employment, 1989-91, by Percent of Output Exported, 1991

	% Output Exported			
	None	1-24	25-49	50+
mean % change in employment	-33.7	-30.4	-35.1	-25.7

To explain the structural factors influencing employment more systematically, an ordinary least squares multiple regression function was estimated with the percent employment change in 1989-91 as the dependent variable. Percent employment change was regressed on a set of structural characteristics, as follows:

$$\begin{aligned} \% \text{ emp. ch.} = & \alpha + \beta \Sigma_i \text{IND} + \beta \Sigma_j \text{SIZE} + \beta \Sigma_k \text{PROP} + \beta \Sigma_l \text{LOC} + \beta_1 \% \text{EXP} \\ & + \beta_2 \text{YRSOP} + \beta_3 \% \text{UNSKILL} + \beta_4 \% \text{SALESCH} + \beta_5 \text{NEWTECH} + \\ & + \beta_6 \text{WORKORG} + \beta_7 \text{INCPROD} + e \end{aligned}$$

where the independent variables were defined as follows:

$\Sigma_i \text{IND}$ = a set of binaries (1,0) for industrial sectors, in which the omitted category is food processing;

$\Sigma_j \text{SIZE}$ = a set of binaries for the employment size of establishment in which the omitted category was less than 250 workers;

$\Sigma_k \text{PROP}$ = a set of binaries for property form of establishment, the omitted category being the state sector;

$\Sigma_l \text{LOC}$ = a set of binaries for the geographical area in which the establishment was located, Burgas being the omitted area;

$\% \text{EXP}$ = percent of establishment's output exported in 1991;

YRSOP = The number of years in operation of the establishment

$\% \text{UNSKILL}$ = percent of establishment's workforce in unskilled manual jobs;

$\% \text{SALESCH}$ = percent change in sales value over the past two years;

NEWTECH = 1 if the establishment had introduced new technology, 0 otherwise.

WORKORG = 1 if the establishment had reorganised work processes, 0 otherwise.

INCPROD = 1 if the establishment had expanded its range of products, 0 otherwise.

e = error term.

What might be called "external" restructuring was expected to play the dominant part — changes in property form and sales, as well as export orientation. Employment change was also expected to vary by industry, employment size category and region. The influence of "internal" restructuring factors, such as changes in work organization, and product and technological innovation, was also examined using dummy variables meaning whether or not those had occurred in the past two years. Employment change was also expected to be linked to the employment structure, with big declines anticipated in firms with high employment shares of women and unskilled workers.

The results are presented in table 2.3.6. Briefly, these indicate that, even controlling for other influences, factories in the electronics sector shrunk more than in other sectors, followed by textiles and engineering. The coefficients for the employment size variables suggest that larger establishments cut more in percentage terms than those with fewer than 250 workers but that it was the medium-large size category that cut the most.

Those establishments that expanded total sales relatively the most had the biggest employment gains or, more typically, the lowest employment cuts. This at least suggests that enterprises were responding to market pressures. Export orientation, however, was not a significant influencing factor.⁴

Firms in Plovdiv were less inclined to cut employment than those in Sofia, Pleven and Burgas, even controlling for the sectoral distribution of employment. That might reflect the regional pattern and structure of employment, in which a region having a high share of those industries cutting employment considerably could have a local multiplier effect.

Cooperatives cut employment more than any other property form, confounding the widespread expectation that cooperatives adjust incomes rather than employment to a greater extent than other forms of enterprise. One can only presume that this was due to the severe onslaught against cooperatives during 1991-92.

Factories cut employment more if they had a high share of unskilled manual labour. Although the variable is not included in the following regression model, there was no evidence that those with a high share of women in their workforces cut more than others.⁵

Finally, the introduction of new production technology was associated with positive employment growth or a reduced employment cut.⁶

What pattern can be discerned from these results? The employment decline was pervasive, but some popular myths can be dispelled, the most important being that state enterprises do not need to be privatised before massive job cuts will occur. State enterprise managements were surprisingly responsive. Moreover, marketing strategy did make a difference, or at least the outcome of the orientation of the enterprise did. Yet, although the technological variable was significant, there is little in the results to question the view that massive internal restructuring of industrial enterprises was still waiting to happen.

⁴ The variable used was the percent of output exported in 1991, although the level in 1989 and the change in export orientation were also tested and were not significant.

⁵ For an in-depth analysis, see: G. Sziraczki and J. Windell, "Impact of Employment Restructuring on Disadvantaged Groups in Bulgaria and Hungary", *International Labour Review*, Vol. 131, 1992, No. 4-5.

⁶ For a more complete review of this relationship among the firms surveyed, see: G. Standing, G. Sziraczki and J. Windell, "Product, Technological and Work Reorganization Changes", draft paper presented at the ILO *Conference on Labour Market Reforms in Bulgarian Industry*, Sofia, May 18-20, 1993.

Table 2.5.6: OLS Regression Results: Percent Employment Change, 1989-91

Dependent Variable: Percent Employment Change

Independent Variables	Coefficients
Constant	-29.55
Industry	
Textiles, etc.	-8.15***
Wood and paper products	-5.14
Engineering	-8.90***
Electronics	-13.89***
Chemicals	-7.97**
Non-metallic minerals	-7.03*
Mining	-3.19
Other	-14.49***
Employment Size 1989	
250-499	-3.19
500-749	-9.81***
750+	-4.56*
Property Form	
Cooperative	-8.94***
Joint Stock	6.04**
Limited Liability	3.11
Region	
Sofia	-1.53
Plovdiv	5.57**
Pleven	1.94
Years in operation	0.09**
Percent of workforce unskilled 1989	-0.09*
Percent of output exported 1991	0.04
Percentage change in sales 1989-91	0.03***
Introduction of new technology	4.00**
Increase in range of products	1.21
Change in work organisation	0.21

F = 7.02

R² = 0.31

N = 449

Note: *** denotes significance at 1% level (two-tailed test),
 ** at the 5% level and * at the 10% level.

4. Towards a Dualistic Structure of Employment?

By the end of 1991, the mean employment size of establishments in the BLFS had shrunk to 504, having been 742 at the end of 1989. The mean size was roughly the same across all industries, the exception being those in metal ore extraction and those classified as "other". On average, mining firms remained the largest, with a mean employment size of 1,193 (table 2.4.1).

The average employment size was about 50% greater in Plovdiv and Pleven than elsewhere, a reflection of the industrial structure of these regions (table 2.4.2).

The size distribution by property form varied significantly, with almost two-thirds of cooperatives employing fewer than 250 workers, and limited-liability companies were also concentrated in the smaller-size categories. Small and medium-size establishments predominated among state-owned firms, with about two-thirds having fewer than 500 workers. Joint-stock companies were generally large, with a mean employment size of 715 (table 2.4.3).

Differences between forms of ownership may in part be explained by the way privatization was proceeding. The large state-owned firms appear to favour some form of joint-stock ownership, while smaller firms favoured becoming a limited liability company. Despite the growth in the number of private enterprises, the state sector remained by far the largest, accounting for 70% of industrial employment at the end of 1991.

In addition to the prospective transformation of state enterprises into limited liability and joint stock companies, start-up private firms are growing at a rapid rate. By the end of 1991, almost 100,000 had been registered, although many were not actually in operation. These companies are generally small, as evidenced by the BPSS in which the average size was 34 workers. There appears to be a dualistic structure of employment emerging in the Bulgarian economy – a private sector based on small firms alongside a state sector that is increasingly commercialised, with employment still concentrated in large firms. This pattern is probably only a transitional one; as economic restructuring gains momentum further changes in property form and employment size are inevitable.

As figure 2.1 shows, almost 70% of establishments had fewer than 500 workers in 1991, and almost 40% had fewer than 250. Because of the dramatic fall in employment, the employment size distribution of establishments in 1991 differed greatly from that in 1989, when fewer than 20% had fewer than 250 workers. Over 30% had more than 750 workers at the end of 1989, a share that dropped to about 18% by the end of 1991. This development, however, was not accompanied by any redistribution of employment towards smaller firms. The workforce share within each size category scarcely changed between 1989 and 1992, with firms with over 750 workers actually having a slightly larger share of employment than before (figure 2.2). Thus the concentration of employment in large production units intensified during the first phase of reform. What happened was a huge decline in overall employment due to the economic crisis, without any restructuring.

Table 2.4.1: Employment Size Distribution of Establishments, by Industry, 1991.
(% distribution of size category among sectors)

Industry	Employment Size 1991				Mean employment	% total employ.
	<250	250-499	500-750	750+		
Food	22.5	45.1	12.7	19.7	504	15.4
Textiles	33.3	28.3	20.0	18.3	546	14.1
Wood/Paper	44.7	23.7	18.4	13.2	446	7.3
Engineering	45.6	28.9	7.0	18.4	520	25.5
Electronics	38.5	23.1	11.5	26.9	556	12.4
Chemicals	32.1	32.1	14.3	21.4	557	6.7
Non-met.	34.8	26.1	21.7	17.4	449	4.4
Mining	21.4	35.7	7.1	35.7	1193	7.2
Other	67.2	21.3	8.2	3.3	264	6.9
All	39.2	30.0	12.8	17.9	504	100.0

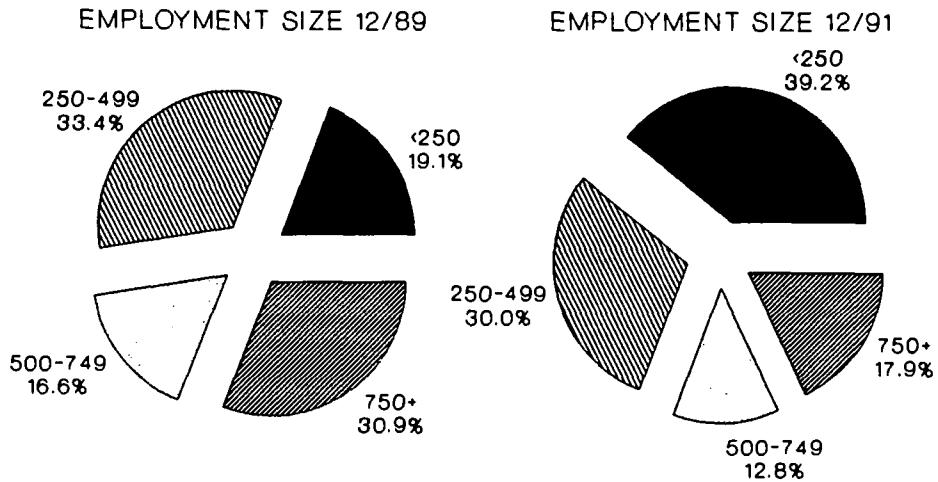
Table 2.4.2: Distribution of Establishments, by Employment Size, by Region, 1991
(% distribution of size category within region)

Size 1991	Region			
	Sofia	Plovdiv	Pleven	Burgas
<250	45.1	26.8	41.6	47.4
250-499	24.5	34.8	30.3	32.9
500-749	16.8	12.5	9.0	5.3
750+	13.6	25.9	19.1	14.5
Mean Employment	425	608	604	424
% of total employment	33.7	29.3	23.1	13.9

Table 2.4.3: Employment Size Distribution of Establishments, by Property Form, 1991
 (% distribution among forms of ownership)

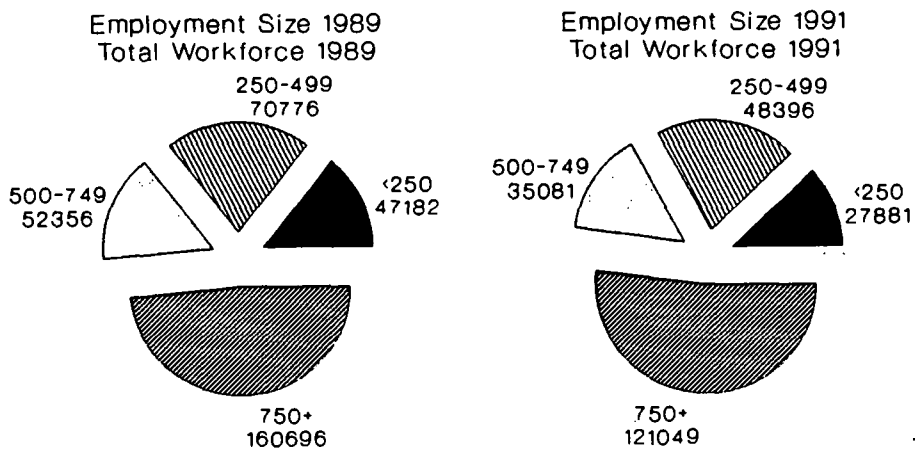
Size 1991	Property Form			
	State	Coop.	Jt. Stock	Ltd. Liability
<250	37.7	63.5	20.5	45.7
250-499	30.0	21.2	30.8	32.9
500-749	13.3	5.8	12.8	12.9
750+	19.0	9.6	35.9	8.6
Mean Employment	542	321	715	362
% of total employment	70.0	7.2	12.0	10.8

**FIGURE 2.1
EMPLOYMENT SIZE DISTRIBUTION
OF ESTABLISHMENTS 1989-91**



Bulgarian Labour Flexibility Survey 1992

**FIGURE 2.2
WORKFORCE DISTRIBUTION BY
EMPLOYMENT SIZE CATEGORY, 1989-91**



Bulgarian Labour Flexibility Survey 1992

5. Labour Surplus and Enterprise Responses 1990-91

In the old system, industrial enterprises typically experienced contrived labour "shortage", with high rates of mostly-voluntary labour turnover, and more vacancies than suitable applicants. This began to change after 1989 and, according to the survey data, has continued to change. One senses, however, that old attitudes take time to die and that those have made it hard for old-style managers to recognise and admit to having 'surplus labour', perhaps fearing that to do so would reflect on their capacities and lead to workers being transferred or their own position being jeopardised with the workers or their superiors.

This legacy may be one explanation for the fact that in 1992, in response to a direct question on whether, for a period lasting a month or more, they had too little work for their workforce at any time in the past two years, only a little over a third (34%) reported that they had. Another conceivable explanation is less plausible, which is that they had taken such speedy action once labour surplus emerged that it had not lasted long. In the circumstances of accumulated inertia, that seems most unlikely.

Labour surplus was reported to have existed in only 13% of factories in the wood products' and paper products' sectors, but was reportedly far more prevalent in electronics (table 2.5.1). It was more likely to be reported in medium-sized establishments than for either the largest or small-scale factories, and no less than half of all cooperatives reported that it had been a problem, compared with 23% of joint stock enterprises. Those in Plovdiv and Pleven seemed more likely to have the problem than in Sofia and Burgas. Not too much should be made of these differences. More importantly, of those that reported having had a labour surplus, although a third said it had actually decreased, half the sample of firms reported that surplus labour had increased in 1991, with more textiles' and electronics' factories reporting a deterioration (table 2.5.2). It was relatively likely to have grown in medium-to-large establishments, in limited liability firms and in Plovdiv and Pleven.

Table 2.5.1: Too little work for workforce at any time during 1990-91, by Industry

Industry	% with labour surplus
Food processing	32.4
Textiles, etc.	23.3
Wood/Paper	13.2
Engineering	30.7
Electronics	52.9
Chemicals	32.1
Non-met. min.	47.8
Mining	14.3
Other	50.0
All	34.0

Table 2.5.2: Change in Labour Surplus, by Industry, 1990-91
(% distribution within size category)

Industry	Level of Labour Surplus		
	Increased	Decreased	No Change
Food processing	39.1	43.5	17.4
Textiles, etc.	60.0	13.3	26.7
Wood/paper	(40.0)	-	(60.0)
Engineering	57.1	37.1	5.7
Electronics	60.0	24.0	16.0
Chemicals	(44.4)	(33.3)	(22.2)
Non-met. min.	27.3	36.4	36.4
Mining	*	*	-
Other	48.4	41.9	9.7
All	50.0	33.3	16.7

Those who reported having had a labour surplus were asked what main measure, if any, had been taken before or instead of retrenching workers. Managers were fairly likely to have reduced labour input by "soft" measures and to reduce the labour input of the remaining workers. More than a third (35.6%) said they had encouraged retirements (including early retirement), 14.8% had cut regular and/or overtime hours, and 10.1% had extended vacations.

Managements in the engineering sector were much more likely to have encouraged retirement, those in textiles had been more inclined to cut working time, and those in the non-metallic minerals sector to put workers on extended leave. Retirement as an alternative to retrenchment seemed to be relatively favoured among joint stock companies and medium-to-large establishments. Small firms and cooperatives favoured cuts in hours worked. Extended vacations were used extensively among limited liability companies (tables 2.5.3-2.5.4).

Although internal transfer and retraining were less frequently mentioned as the main measure to avoid or reduce redundancies, many firms did use these measures. Almost 70% of all establishments had transferred workers to other units of the establishment in order to limit redundancies. Of those who did this, on average 5.7% of the workforce was transferred (weighted mean), ranging from a high of over 8% in chemicals to 2.4% in mining. This practice was relatively common in food processing, electronics, chemicals and the non-metallic minerals' sector, and less common in small firms, cooperatives and joint stock companies (tables 2.5.5-2.5.7).

Table 2.5.3: Main measure before/instead of retrenchment, by Employment Size, 1989
(percent distribution among size categories)

Employment Size 1989	Main measure before/instead of retrenchment*					
	None	Cut work time	Extended vacation	Trans- fer	Retrain	Engrgd. retire- ment
<250	7.7	7.7	7.7	7.7	15.4	38.5
250-499	8.8	22.8	8.8	12.3	7.0	26.3
500-749	3.2	9.7	16.1	-	16.1	41.9
750+	14.3	11.4	8.6	11.4	2.9	42.9
All	8.7	14.8	10.1	8.7	9.4	35.6

* Other responses omitted.

Table 2.5.4: Main measure before/instead of retrenchment, by Property Form, 1991
(% distribution among forms of ownership)

Property Form 1991	Main measure before/instead of retrenchment*					
	None	Cut work time	Extendedvac ation	Trans- fer	Retrain	Engrgd. retire- ment
State	9.8	15.7	9.8	10.8	6.9	32.4
Coop.	11.5	19.2	7.7	7.7	7.7	38.5
Jt. Stock	-	11.1	-	11.1	11.1	55.6
Ltd.Liab.	6.3	6.3	18.8	6.3	25.0	31.3

* Other responses omitted.

Table 2.5.5: Percent of Establishments Transferring Workers Within Establishment to Avoid or Limit Redundancies and Percent of Workforce Transferred, by Industry
(distribution within sectors and weighted mean transferred)

Industry	% of establishments transferring	% of workforce transferred
Food processing	73.2	5.7
Textiles, etc.	58.3	4.1
Wood/Paper	60.5	4.4
Engineering	67.5	4.6
Electronics	74.5	7.3
Chemicals	85.7	6.8
Non-met. min.	82.6	4.8
Mining	71.4	2.4
Other	61.7	6.0
All	68.6	5.2

Table 2.5.6: Establishments Transferring Workers Within Establishment to Avoid or Limit Redundancies and Percent of Workforce Transferred, by Employment Size, 1989

	Employment Size 1989			
	<250	250-499	500-749	750+
% of establishments transferring	58.8	73.5	71.6	70.3
% of workforce transferred	5.7	5.3	5.6	5.2

Table 2.5.7: Percent of Establishments Transferring Workers Within Establishment to Avoid or Limit Redundancies and % of Workforce Transferred, by Property Form, 1991

	Property Form			
	State	Coop.	Jt. Stock	Ltd. Liability
% of establishments transferring	70.2	59.6	61.5	72.5
% of workforce transferred	5.3	6.0	5.3	3.4

Almost 30% of establishments claimed that they provided training specifically to limit redundancies, although in many cases (43.2%) the training offered was only informal and on-the-job. On average, 6.4% of the workforce received such training in firms offering it as an alternative to redundancy (weighted mean). Those in the chemicals industry offering such training retrained over 11% of their workforce, and those in electronics and food processing trained more than 6%. Training as a measure to limit redundancies was more common in the wood and paper industry (37.8%) and in the non-metallic minerals sector (43.5%). Larger firms were more likely to implement such measures, as were joint stock companies. Training was a more common response in firms where job losses were relatively modest (table 2.5.8).

Freezing recruitment and encouraging non-retirement age employees to leave voluntarily are other examples of "soft" measures by which managements can avoid retrenchments by taking advantage of "natural wastage". The freezing of recruitment was widespread. No less than 44% of establishments did not recruit any workers in 1991. On average, at the end of 1991, only about 5% of the total workforce consisted of new recruits hired in 1991. There were also very few vacancies that year, with only 30% of establishments having any open positions.

Table 2.5.8: Percent of Establishments Offering Training to Avoid or Limit Redundancies and Percent of Workforce Trained, by % Employment Change, 1989-91
(% distribution within employment change category and weighted mean percent trained)

	% Employment Change			
	Fell 40+	Fell 39-20	Fell 19-1	Rose
% of establishments offering training	21.7	34.8	30.2	23.1
% of workforce trained	4.1	4.4	8.4	7.3

Many employers had also pursued a hidden or open policy of encouraging voluntary resignations as an alternative to retrenchments. Yet almost 57% reported that voluntary resignations had decreased during the previous two years, whereas only 14% said they had increased. Presumably, resignations fell because of a lack of openings elsewhere. Almost 14% admitted to encouraging workers to leave voluntarily, the most common means being by "changing job structures". Firms in engineering, electronics and non-metallic minerals were relatively likely to have operated such a practice.

Since workers resigning voluntarily were ineligible for severance pay or unemployment benefits, one questions the ethics involved in using such measures as alternatives to formal retrenchment, particularly if they entail tactics such as assigning workers to hazardous or unpleasant tasks unrelated to their qualifications or experience. To minimize such unfair practices, collective bargaining between employers and unions can provide a negotiated framework on appropriate measures and procedures to deal with labour surplus in an equitable manner.

6. Retrenchments

Freezing recruitment, cuts in working time, internal transfer and extending vacations may be used as bridging measures during times of temporary declines in output. Similarly, encouraging resignations and retirements are relatively painless ways for managements to adjust the size of the workforce. However, in the context of the Bulgarian crisis, it is scarcely surprising that the vast majority of factories had resorted to retrenchments between 1990 and 1992.

In 1990, 44.6% had retrenched workers, in 1991 68.5% had done so. An extraordinary 73.6% of all establishments had retrenched during the previous two years, with a majority in every sector having done so (table 2.6.1). Firms with between 500 and 749 workers were the most likely to have retrenched (table 2.6.2). Nearly 90% of cooperatives had retrenched, while only 56% of joint stock companies had done so (table 2.6.3).

Table 2.6.1: Percent of Establishments Retrenching, 1990-91, by Industry

Industry	% retrenching
Food processing	70.0
Textiles, etc.	76.7
Wood/Paper	50.0
Engineering	72.8
Electronics	82.7
Chemicals	71.4
Non-met. min.	69.6
Mining	71.4
Other	86.7
All	73.6

Table 2.6.2: Percent of establishments retrenching, 1990-91, by Employment Size, 1989

	Employment Size 1989			
	<250	250-499	500-749	750+
% retrenching	72.3	69.1	82.4	75.4

Table 2.6.3: Percent of establishments retrenching, 1990-91, by Property Form, 1991

	Property Form			
	State	Coop.	Jt. Stock	Ltd. Liability
% retrenching	75.5	86.5	56.4	65.7

What was intriguing was that retrenchments accounted for a high share of total departures from employment.⁷ The BLFS obtained information on reasons for labour turnover in 1991. Overall, 34% of workforce reductions were due to retrenchment, 35.9% to resignations and 15.4% to retirement. In 1991, 5.6% of those leaving were dismissed, 4.6% left through an early retirement programme and 4.4% were transferred to other establishments in the same enterprise.

Firms in the electronics industry had the highest share of workers leaving through retrenchments (table 2.6.4). Those with between 500-749 workers had a relatively high share leaving through retirement (table 2.6.5). Among ownership forms, cooperatives had the highest share leaving through retrenchments (table 2.6.6).

Not surprisingly, the share leaving because of retrenchment was strongly, positively correlated with the change in employment, accounting for 16.4% of leavers in those firms that cut employment by less than 20% to 46.3% in those that cut by more than 40% (table 2.6.7). Conversely, the share of those leaving through retirement, dismissal or voluntary resignation was higher where employment decline was less.

⁷ This pattern is by no means predictable in the context of employment reductions. For the reverse pattern in Russia, see G. Standing "Employment Dynamics in Russian Industry", paper presented at the ILO Conference on Employment Restructuring in Russian Industry, Moscow and St. Petersburg, October, 1992.

Table 2.6.4: Turnover Rate and Reason for Leaving, 1991, by Industry

Industry	Turn-over Rate	Turnover Reason as % of Leavers					
		Resi-gned	Old-Age	Early Retire	Dism-issed	Retr-enched	Tran-sfer
Food	26.5	32.4	11.4	5.5	5.4	41.1	4.0
Textiles	26.6	33.7	17.3	5.1	6.2	35.5	2.1
Wood/Paper	19.7	38.1	19.6	5.6	5.8	29.0	1.8
Engineering	26.3	31.4	16.4	3.5	7.2	34.9	6.6
Electronics	29.0	39.9	6.4	4.0	2.8	42.1	4.7
Chemicals	17.4	47.4	27.0	1.8	7.6	14.7	1.5
Non-met.	27.5	38.9	19.8	2.7	8.3	20.7	9.6
Mining	19.7	39.8	27.7	8.6	5.1	17.1	1.7
Other	33.9	41.9	14.2	5.8	3.2	31.8	3.7
All groups	26.0	35.9	15.4	4.6	5.6	34.0	4.4

Table 2.6.5: Turnover Rate and Reason for Leaving, 1991, by Employment Size, 1991

Employment Size	Turn-over Rate	Turnover Reason as % of Leavers					
		Resi-gned	Old-Age	Early Retire	Dism-issed	Retr-enched	Tran-sfer
<250	33.3	36.8	11.4	4.9	4.9	36.4	5.5
250-499	26.4	33.8	13.2	4.8	5.2	39.4	3.5
500-749	27.1	42.0	19.5	5.3	4.3	24.1	4.8
750+	23.4	34.3	16.5	4.2	6.5	34.1	4.3

**Table 2.6.6: Turnover Rate and Reason for Leaving, 1991,
by Property Form, 1991**

Property Form	Turn-over Rate	Turnover Reason as % of Leavers					
		Resi-gned	Old-Age	Early Retire	Dism-issed	Retr-enched	Tran-sfer
State	25.6	33.8	15.7	4.6	6.1	34.8	4.9
Cooperative	33.7	38.1	11.0	5.7	3.5	38.8	2.9
Jt. Stock	23.1	46.1	16.2	3.9	4.1	28.2	1.5
Ltd. Liab.	25.2	37.4	17.5	4.1	6.1	29.5	5.4

**Table 2.6.7: Turnover Rate and Reason for Leaving, 1991,
by Employment Change 1989-91**

Employment Change (%)	Turn-over Rate	Turnover Reason as % of Leavers					
		Resi-gned	Old-Age	Early Retire	Dism-issed	Retr-enched	Tran-sfer
Fell 40+	37.1	30.6	11.5	4.6	3.9	46.3	3.0
Fell 39.9-20	25.1	34.5	16.3	4.2	5.6	34.5	4.9
Fell 19.9-1	18.9	46.5	20.2	5.0	8.2	16.4	3.8
Rose	16.9	52.1	18.3	8.4	11.4	4.6	5.3

7. Expected Changes in Employment

Despite the dramatic downsizing of establishments between 1989 and 1991, fully 70% of managers reported they could produce the same level of output with fewer workers. Those managements felt they could maintain current levels of production and reduce their workforce by an additional 18.7% on average.

Electronics factories were the most pessimistic, stating they could cut almost 25% of their workforce (figure 2.3). On average, managers in small-scale firms with fewer than 250 workers thought they could cut their workforce more than their larger-scale counterparts (figure 2.4). Joint stock companies were inclined to believe they could cut slightly more than other forms of ownership (figure 2.5).

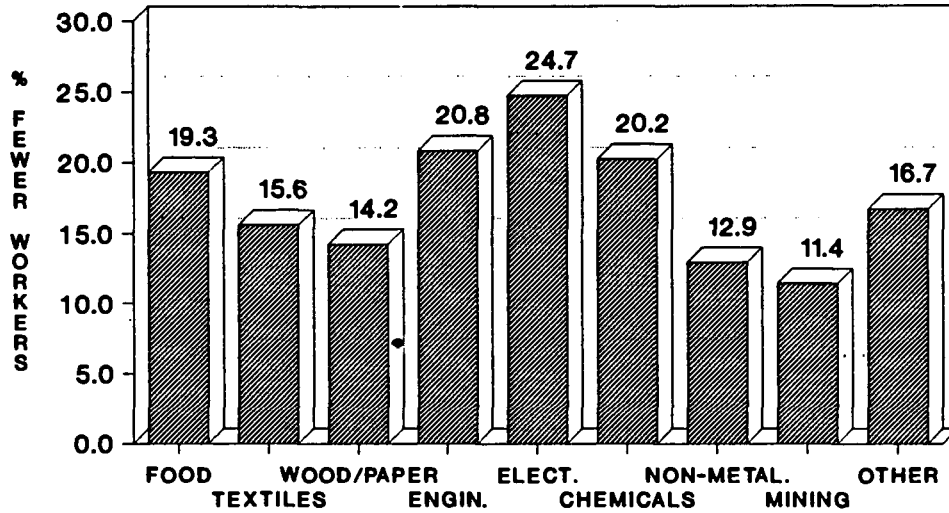
For Bulgarian policymakers, these are depressing figures considering the employment cuts already made. This might be construed as an indication that labour hoarding remained pervasive in Bulgarian industry, or that the decline is merely expected to continue.

However, managements were not as pessimistic as one would have presumed. Establishments were asked whether they expected employment to rise, fall or remain unchanged during the coming year. A majority (57.6%) expected no change in employment, over 27% expected an increase, and only 15.3% foresaw a decline in employment. Perhaps due to the massive cuts already made, Bulgarian firms appeared quite sanguine about future levels of employment. Food processing was the industry most likely to expect a drop in employment, followed by electronics and engineering, whereas those in chemicals and mining were the most likely to expect an increase (table 2.7.1).

Large firms were much more likely to anticipate a contraction in employment and small firms were more likely to expect an increase (table 2.7.2). Limited liability firms were more likely than other forms of ownership to expect a rise in employment (table 2.7.3). In the BPSS, 37.9% of managers expected employment to increase in the coming year, 13.6% thought it would decrease and 35.9% expected no change. Data from the BLFS and BPSS therefore suggest that newly privatized small firms, such as limited liability companies, and start-up ventures, such as those in the BPSS, were likely to be the source of expansion in employment, while large-scale enterprises would continue their decline.

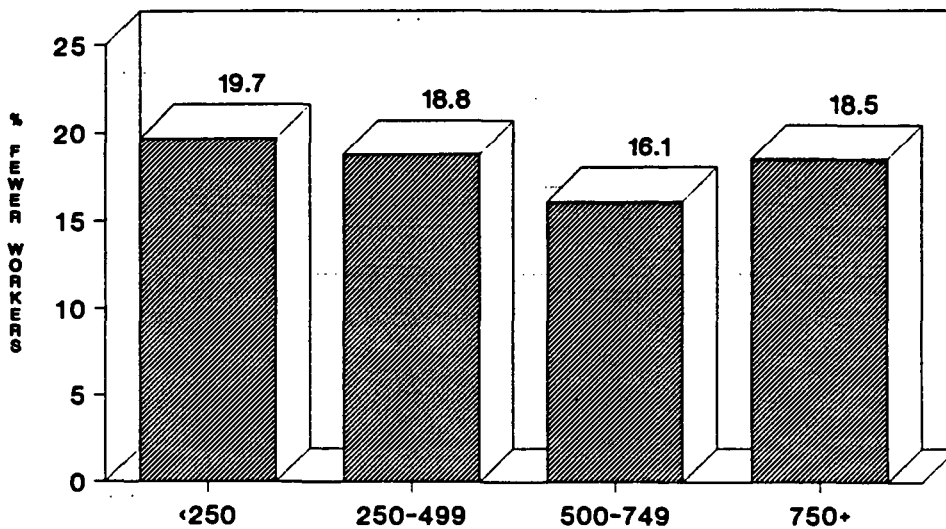
Managers were then asked to identify what they saw as the main reason for the expected change in employment. Over 61.4% of those expecting a decline said that the main reason was that there was no market for their products. And a majority (53.5%) of those expecting employment to grow referred to an expanding product market as the main reason. It seems that managers expected the employment prospects of their enterprise to depend largely on the development of product markets, rather than on the firm itself. Factors such as product innovation, technology and work organisation, on which long-term productivity and viability of the firm will rest, were rarely mentioned. This is further indication that large-scale external and internal restructuring is still waiting to happen.

FIGURE 2.3
PERCENT FEWER WORKERS FOR SAME
OUTPUT, BY INDUSTRY, 1992



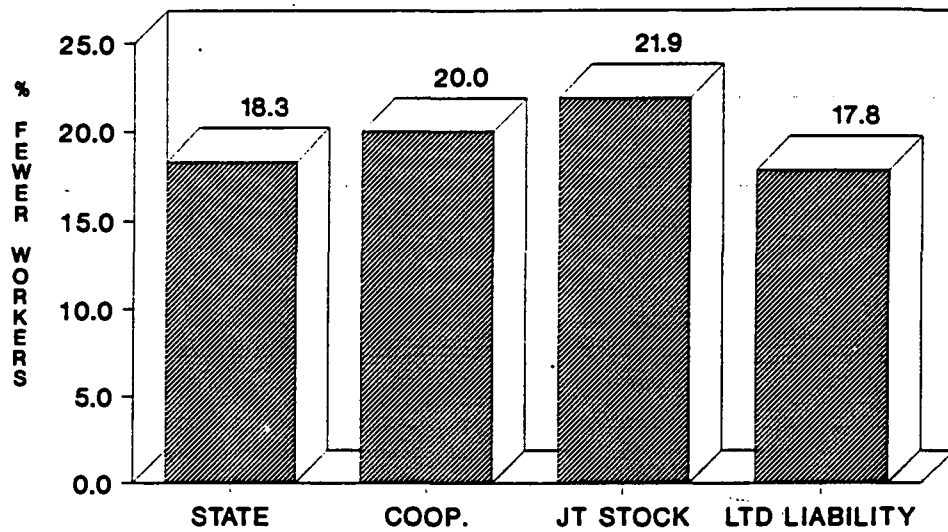
Bulgarian Labour Flexibility Survey 1992

FIGURE 2.4
PERCENT FEWER WORKERS FOR SAME
OUTPUT, BY EMPLOYMENT SIZE, 1992



Bulgarian Labour Flexibility Survey 1992
 N = 315

FIGURE 2.5
PERCENT FEWER WORKERS FOR SAME
OUTPUT, BY PROPERTY FORM, 1992



Bulgarian Labour Flexibility Survey 1992
n = 315

Table 2.7.1: Expected Change in Employment, 1992, by Industry.
(% distribution among sectors)

Industry	Expected Change in Employment			
	Increase	Decrease	No Change	Don't Know
Food processing	17.1	38.6	41.4	2.9
Textiles, etc.	25.0	25.0	45.0	5.0
Wood/Paper	23.7	26.3	47.4	2.6
Engineering	29.2	34.5	31.9	4.4
Electronics	24.0	40.0	32.0	4.0
Chemicals	32.1	25.0	42.9	-
Non-metal. min.	21.7	30.4	43.5	4.3
Mining	30.8	23.1	38.5	7.7
Other	27.1	15.3	57.6	-

Table 2.7.2: Expected change in Employment, 1992, by Employment Size, 1991.
(% distribution within size categories)

Employment Size	Expected Change in Employment			
	Increase	Decrease	No Change	Don't Know
<250	31.0	25.0	39.7	4.3
250-499	20.0	32.6	46.7	0.7
500-749	28.1	28.1	42.1	1.8
750+	19.2	39.7	34.6	6.4

Table 2.7.3: Expected Change in Employment, 1992, by Property Form, 1991.
(percent distribution within forms of ownership)

Property Form	Expected Change in Employment			
	Increase	Decrease	No Change	Don't Know
State	23.8	32.3	40.8	3.1
Cooperative	25.5	19.6	52.9	2.0
Jt. Stock	23.1	38.5	35.9	2.6
Ltd. Liability	32.9	24.3	37.1	5.7

Table 2.7.4: Expected Change in Employment, 1992, by Region.
(% distribution within region)

Region	Expected Change in Employment			
	Increase	Decrease	No Change	Don't Know
Sofia	30.8	24.7	41.8	2.7
Plovdiv	18.8	40.2	36.6	4.5
Pleven	14.8	30.7	51.1	3.4
Burgas	34.7	27.8	34.7	2.8
All Regions	25.3	30.2	41.2	3.3

8. Concluding Remarks

At the end of the interviews with managers, they were asked to identify the main employment-related problem they expected in the coming year. Surprisingly, the most commonly mentioned - by about 23% of all respondents - was "none", which was followed by labour surplus (20.1%), lack of markets or marketing difficulties (18.4%) and high labour costs (14.1%). The number who claimed that they expected no employment-related problem may have been a reflection of the sanguine outlook of managers noted earlier, or their incapacity to plan in the emerging market environment. However, over a third of managers looked at the future with concern, citing poor market prospects or problems of labour surplus (table 2.8.1).

The large number mentioning labour costs as their main employment problem suggests that many were facing harder budget constraints and that "cost consciousness" among employers had improved. While this was a positive sign, it was disappointing that very few managers mentioned low productivity as of primary concern. One predicts that during 1993 and 1994 this ranking will change sharply, with quality and productivity issues coming to the fore.

So far, industrial employment has declined to a much greater extent than in most other central and eastern European economies prior to any substantial privatisation. Yet there has been downsizing, without restructuring. Indeed, it is notable that the employment cut was negatively related to the number of years in which the establishment had been in operation, with the average age of firm of those that had either expanded employment or cut it by up to 20% being 39 years, compared with 30 years for those that had cut by more than 40%. This is striking evidence of a relative absence of restructuring, especially as large-scale establishments had generally been operating for much longer than average.

Another feature of the employment decline is that Bulgarian industry seems to have moved well into what might be called the third phase of employment declines associated with the transition process, without some of the favourable developments that have accompanied that elsewhere. In the first phase, high labour turnover characteristic of the old full employment command economy permitted employment cuts to come primarily through non-replacements of "voluntary" resignations. In the second phase, vacancies dry up, dismissals and occasional retrenchments rise as a proportion of total labour turnover, while managements resort to prolonged paid or unpaid leave, cuts in working time and other "holding" measures. In the third phase, which has usually accompanied massive restructuring, privatisation and plant closures through bankruptcies, retrenchments comprise a large component of total job losses. Bulgarian industry seems to have already reached the third phase and can only envisage a further series of employment cuts when internal restructuring accelerates. It is not a pleasing prospect.

Table 2.8.1: Main Employment Problem in 1992, by Industry.
(% distribution among sectors)

Industry	Main Employment Problem 1992*						
	None	Lack skilled workers	High wage/benefit costs	Labour surplus	Low work quality/productivity	Lack of markets or marketing	Other
Food products	30.4	5.8	8.7	24.6	4.3	15.9	5.7
Textiles, etc.	22.0	13.6	20.3	8.5	6.8	22.0	3.4
Wood/paper	25.0	11.1	13.9	22.2	5.6	13.9	2.8
Engineering	19.6	9.8	16.1	16.1	4.5	22.3	6.3
Electronics	16.0	6.0	12.0	32.0	6.0	18.0	8.0
Chemicals	25.9	7.4	7.4	25.9	3.7	18.5	7.4
Non-met. min.	34.8	13.0	21.7	13.0	8.7	8.7	-
Mining	30.8	7.7	-	30.8	-	23.1	8.5
Other	18.6	5.1	15.3	20.3	5.1	20.4	10.2
All	23.0	8.7	14.1	20.1	5.1	18.9	6.0

* 'Don't know' responses omitted.

APPENDIX

ILO PAPERS PRESENTED AT THE CONFERENCE ON
LABOUR MARKET REFORMS IN BULGARIAN INDUSTRY
Sofia, May 18-20, 1993

- Paper 1: The Bulgarian Labour Flexibility Survey: Introduction
- Paper 2: Employment Dynamics in Bulgarian Industry
- Paper 3: External Labour Flexibility: The Drift to Casualisation?
- Paper 4: Occupational Restructuring in Bulgarian Industry
- Paper 5: Training and Human Resource Development
- Paper 6: Recruitment and the Employment Services
- Paper 7: Vulnerable Groups in Transition Labour Markets: Bulgaria and Hungary
- Paper 8: Industrial Wages, Payment Systems and Earnings
- Paper 9: Product Innovation, Technology and Work Reorganisation Changes
- Paper 10: Patterns of Industrial Relations

All the above papers were prepared jointly by the ILO's Active Labour Market Policies Branch (Geneva) and Central and Eastern European Team (Budapest).