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საჯარო პოლიტიკის, ადვოკატირებისა და სამოქალაქო საზოგადოების განვითარება საქართველოში

## PMC Research Center

# Economic Analyses of the Proposed Amendments to the Labor Code of Georgia

The project is implemented in the framework of The East-West Management Institute’s (EWMI) Policy, Advocacy, and Civil Society Development in Georgia (G-PAC) Program, funded by United States Agency for International Development (USAID).

The study is made possible by the generous support of the American people through the USAID. The content is the responsibility of the authors and PMC Research Center and do not necessarily reflects the view of USAID, the United States Government, or EWMI.

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## Content

<b>Executive Summary</b>	<b>3</b>
<b>Introduction</b>	<b>5</b>
<b>1. Labor Relations – Essence and Meaning</b>	<b>6</b>
<b>2. Initiated Amendments to the Labor Code of Georgia, labor market institutions and the results of relevant empirical studies</b>	<b>7</b>
<b>Conclusion</b>	<b>14</b>
<b>Recommendations</b>	<b>15</b>
<b>3. Annex 1 - Results of the survey of business leaders' attitudes to the initiated amendments to the Labor Code of Georgia</b>	<b>16</b>
3.1. Conclusion of the contract/Probationary period	17
3.2. Overtime Work	22
3.3. Employment contract suspension/termination	26
3.4. Mass dismissal	30
3.5. Dismissal	31
3.6. Collective dispute	33
3.7. Strike/Lockout	35
3.8. General assessment	37
Appendix	38

The report is prepared by PMC Research Center. Mr.Lasha Chochua and Ms. Mariam Lortkipanidze worked on the report. ACT conducted the quantitative survey of the expectations of business organizations.

We are grateful to business organizations, which participated in the survey, for their contribution to the study.

## Executive Summary

Amendments are initiated to the Labor Code of Georgia in several directions, including: tightening the regulations for termination of the employment contract and labor relations; introduction of the regulations for mass dismissal and increasing the role of state in the process of collective dispute resolution.

The key questions studied in this report are following: What are expected effects of such regulations? Do they contribute to new job creation? Do they contribute to improvement of existing working conditions? How do employers response to such regulations? What is the relationship between the economic crisis and the reduction of the degree of flexibility of the labor market?

PMC Research Centre presents economic analyses to the Labor Code of Georgia. The analysis is based on international empirical studies, experiences of other countries, and the survey of business leaders' attitudes to the initiated amendments to the Labor Code of Georgia.

The World Bank, in its 1990 report, develops the idea that labor market regulations aimed at improving the situation of employers were actually harming them. OECD in its 1994 report, while searching the causes of different levels of unemployment in OECD member states, highlights the importance of the labor market institutions and advices member states to deregulate the labor markets.

The analyses of international empirical studies demonstrate that tightening labor market regulations, worsens the situation on labor market; in particular reduces the likelihood of creating new jobs, increases probability of increasing the share of shadow economy and makes difficult to adapt during economic crises.

Based on the results of international empirical studies, the analyses of amendments planned to the Labor Code of Georgia, give possibility to conclude that mentioned changes will have negative impact on creation of new jobs and will increase possibility of shadow economy and political corruption. Besides, in case of economic crises, it will be difficult for the economy to adapt.

Tightening the regulations for drawing and terminating labor contracts will unambiguously increase businessmen's costs related to the employee. The increase of expenses, likely will decrease the demand for labor force, which consequently will negatively effect on new job creation opportunities.

The burden of permanent contracts encourages entrepreneurs to refrain from creating new job opportunities. Permanent contracts will provide the entrepreneurs with fewer opportunities for reduction of business risks, consequently – with less motivation for creation of new jobs. Collapse of the mechanism, which enables businessman to make courageous decisions on creation of jobs, will have negative impact on provision of new jobs and on employment level in general.

Direct involvement of the state in case of mass dismissal and collective disputes, strengthens its role, and increases state's pressure on businesses. In case of mass dismissal, making unpopular decision will be difficult for any politician. In most cases, this will lead to make either populist decisions or existence of distorted relations between the state and businesses (corruption deals and so on).

Reduced flexibility of labor market also decreases businessmen' chances to react on time to the changes triggered by economic crisis. In case if economic situation gets worth it cannot be reversed quickly to improve the situation. For the countries with small economies, which are overly sensitive to

the global crisis or similar negative shocks, a flexible labor market creates quick adaptation opportunities.

The report provides analyses of the results of the survey of business leaders' attitude to the amendments to Labor Code of Georgia. Single articles of the Labor Code were distributed for assessment to the managers of organizations. The respondents assessed the changes hypothetically, in form of generalized statements.

Assessing the amendments in total, approximately 46% of business leaders think that these amendments will not have a positive effect on the improvement of the business environment. Approximately, 51% of the interviewed business leaders believe that the amendments would not have positive effect on the creation of new jobs.

In assessing the business environment, which is a part of any investment decision, attention is paid to the macroeconomic indicators, tax and the Labor Codes, the court system, etc. not separately, but in unity. In less developed countries, with less macroeconomic stability and rather weak judicial system, additional economic regulations reduce incentives for new investments.

Based on findings of empirical research as well as analysis of business leaders' attitudes to the amendments to the Labor Code along with consideration of the economic situation in Georgia, the report presents the following recommendations:

- To reduce at maximum level or abolish restrictions on fixed-term contract;
- To ensure equality in case of termination of employment relations between employee and employer, which implies a freedom of action for both parties to enter into or exit from the relations;
- To increase the degree of freedom of collective agreements. The trade unions do not have a monopoly status granted by law, to conduct collective negotiations on behalf of employees;
- To exclude possibility of the Minister of Labor, Health and Social Affairs to take part in any way in the collective dispute resolution processes;

While assessing any legal document or political decision it is important to foresee possible outcome. Based on the findings of empirical studies outlined in this paper it could be mentioned that making the Labor Code stricter, for the purpose of protecting employees, in reality, may cause serious problems with regard to the improvement of the economic situation.

## **Introduction**

In order to improve working conditions of employees and to reduce unemployment, some amendments are proposed to the labor code of Georgia. The aim of the report is to analyze expected economic effects of mentioned changes.

Why do the states interfere in labor market operations? The need for regulating labor market is justified by deficiencies of free labor market, which means exploitation and discrimination of the employee by the employer in employer-employee relationships. Thus, the aim of the state while interfering in labor market operations is to protect the employees' rights.

Four types of employee protecting regulations can be identified:

1. The state prohibits discrimination on labor market and ensures "basic rights" for employees, such as: maternity leave, identification of minimal salary level and so on;
2. The state, by means of imposing restrictions on the forms and content of labor contracts, increases the expenses for dismissal of employees and determines duration of working time;
3. For purpose of weakening employers' positions, the state provides trade unions with monopoly power to represent employees, with the help of collective agreements; and
4. The states develop mechanisms of protecting employees, for example, social security tools such as employment benefits, special training courses and so on.

The changes initiated in the Labor Code of Georgia can be included third and fourth categories of above mentioned market regulations. The changes limit possibilities for concluding fixed term labor contracts; in case of dismissal of the employee, the employer has to provide written explanation of the reasons for dismissal, upon the request of the employee; trade unions have monopoly power in collective bargaining and the employee has to negotiate with them. The role of state is increased in the process of collective bargaining, for example the minister of labor, health and social affairs has right to appoint mediator at own initiative, in case of disputes. Short list of changes demonstrates that all these attempts of market regulation limit a flexibility of labor market. How effective are such regulations? Do they hinder creation of new jobs or to improvement of conditions on existing ones? How do employers response to such regulations? What are the connections between the reduction of flexibility of labor market and economic crisis? These are the key questions, which will be answered by this research report.

The report has the following structure: 1) the concept of labor relation, its economic meaning and its role in functioning of the economy; 2) review of existing empirical studies and initiated amendments to the labor code of Georgia and; 3) analyses of the results of quantitative survey of business leaders' attitude towards the amendments to labor code of Georgia.

## 1. Labor Relations – Essence and Meaning

Labor relations are contractual relations. The freedom for entry and exit in labor relations are important for some reasons. Among those reasons is right of free choices. A right of free choice should not be restricted while formation of labor relations, as restriction of it will hinder to effective distribution of economic resources, which is a key factor for healthy functioning of economic system.

In discussing labor relations, often interpretations depend on Marxist or post - Marxist theories, which view the mentioned theories from dominating position of the employer. Employers and employees are contradicting parties; consequently, the increase of state's role for protecting the employees' rights is important factor. Creation of legislative tools for regulating market, are associated with activation of left forces in the government and not with the process of creation of effective institutions. According to the theory of political power, the groups of interests condition formation of similar legislation<sup>1</sup>.

Are employers and employees contradicting parties? No, however they have different interests as seller and buyer of goods. The employee as seller of goods wants to sell own labor for high price, and the employer as the buyer wants to buy labor for low price; but despite different interests, employer and employee have common interest – productivity of labor, which is associated with increasing profit for employer and precondition for increasing salary for employee. Additionally, labor relations are developed in open system, which means competition among the employers, possibility for alternative use of labor and so on. Mainly these market mechanisms are main sources for improving employers' conditions following economic development.

Dynamic process of labor relations could be imagined as matching process between job opportunities and heterogeneous labor force. The result of matching process is determined by the contentious mechanism for creation and destruction of jobs. The result of artificial influence on mentioned mechanism will be inefficient allocation of resources, continuance of economic crises and worsening condition on labor market - which is directly connected to the problem of unemployment. The latter was considered just as macroeconomic problem for long time, and consequently ways for its solution were subject of the study of macroeconomic policy. Recently, consensus with the regard to important role of labor market institutions in effective operation of labor market is being increased, since economic institutes impact the structure of motivating economic agents.<sup>2</sup>According to OECD reports of 1994<sup>3</sup>, labor market institutions are main reason of unemployment in developed countries.

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<sup>1</sup>See: Stigler, George, "The Theory of Economic Regulation," *The Bell Journal of Economics and Management Science*, II (1971), 3-21. Posner, Richard, "Theories of Economic Regulation," *The Bell Journal of Economics and Management Science*, V (1974), 335-358. Becker, Gary, "A Theory of Competition among Pressure Groups for Political Influence," *Quarterly Journal of Economics*, XCVIII (1983), 371-400. Esping-Anderson, Gøsta, *Social Foundations of Post-industrial Economies*, (Oxford, U.K.: Oxford University Press, 1999). Hicks, Alex, *Social Democracy and Welfare Capitalism*, (Ithaca, NY: Cornell University Press, 1999).

<sup>2</sup>Acemoglu, Daron, "Institutions as the Fundamental Cause of Long-Run Growth", *Handbook of Economic Growth* ed. By Aghion, Philippe and Durlauf, Steven (ELSEVIER, 2005)

<sup>3</sup>Organization for Economic Cooperation and Development (OECD). *OECD Job Study, Evidence and Explanations, Part I: Labor Market Trends and Underlying Forces of Change*. (Paris, OECD, 1994). *OECD Job Study, Evidence and Explanations, Part II: Adjustment Potential of the Labor Market*. (Paris, OECD, 1994).

## 2. **Initiated Amendments to the Labor Code of Georgia, labor market institutions and the results of relevant empirical studies**

Amendments are initiated to the Labor Code of Georgia in several directions, including: tightening the regulations for termination of the employment contract and labor relations; introduction of the regulations for mass dismissal and increasing the role of state in the process of collective dispute resolution. This section is discussing initiated amendments.

The rule for concluding labor contract excludes possibility for concluding fixed term contract, if the work is not related to fulfillment of the work of particular volume or seasonal work, or temporary increase of the volume of work or temporary substitution of the employee. Addition of other objective conditions regarding the mentioned rule, partially weakens strictness of given rule, however the process of implementation of the rule in practice is ambiguous. Signing a labor contract in written form slightly increases cost for creation of new jobs if the labor relations are continued for more than three months.

Regulations of terminating labor relations are becoming stricter – in case of violating assigned obligations, for example, the employer has no right to dismiss the employee if any disciplinary measures are not already used against him/her. In case of terminating labor relations at the employer's initiative, despite of the reason, the employer is obliged to compensate the employee's unused leave proportionally to the duration of labor relations. This increases the expenses for terminating labor relations. The latter is increased by the increase of incapacity duration margin, which gives an opportunity to terminate labor relations. An important amendment is that employer has to justify the grounds for terminating the contract even in case if termination happens due to an employee's request.

Introduction of regulating mass dismissal and increase of state's role in collective disputes are also challenging changes. At any stage of the dispute, the minister of labor, health and social affairs has right to appoint mediator at own initiative and make decision on termination of conciliatory procedures. Legal provision of monopoly condition of trade union concerning collective agreements is also a challenge.

In business process, the change according to which the employee upon termination of labor relations has now liability not to use obtained knowledge and experience in benefit of competitor employer, could also become a problem.

International practice regarding mentioned legislation is extensive. Labor market institutes are different by countries. The regulations concerning important components of labor relations, existing worldwide are provided below:

### **Term of labor contract**

Regarding the labor contract, the issue of contract duration is important. As a rule, according to the legislation, labor contract is concluded between the parties is considered as permanent, however there is a possibility for concluding fixed term contract. Some countries allow the use of fixed term contract only in cases strictly defined by the law. These countries are: Lithuania, New Zealand, Romania, Slovenia, France, Norway, Denmark, Estonia, Finland, Italy, Luxemburg, Netherlands, Portuguese and Serbia. The legislation of these countries allows fixed term contracts in case if the contract is related to seasonal jobs and its fulfillment is naturally scheduled or one employee is substituted by another.

UK, Sweden, Croatia, Belgium, Austria, Cyprus, Check Republic, Germany, Hungary, Australia, Switzerland, Bulgaria and Turkey the legislation enables the parties to draw fixed term contract and the restriction which might be faced in this case is maximal term ranging between 1-5 years. Besides, renewal of the contract with the same employee for several times is also restricted.

### **Overtime work**

Overtime work is prohibited by some legislation and is allowed only in force major conditions or in conditions defined by the law or in the event of having permit of relevant agencies. These countries are: Bulgaria, Lithuania, Check republic, Belgium. Germany, Greek, Hungary, Italy, Luxemburg, Netherlands, Norway, Poland, Portuguese, Sweden and Turkey.

Overtime is not allowed in Canada, Australia, Austria, Finland, France, Ireland, Spain, Slovakia, Great Britain and New Zealand; however, the reimbursement rules are differently regulated in each country.

### **Obligation for justification of dismissal**

In the event of dismissal obligation for justification is in Germany (in case of dismissal by notification, upon the request of the employee; without the notification the Labour Councils should be immediately notified), Estonia (in written, by active participation of the Councils), France (obligation for inviting the employee in order to explain the reason), Ireland (in case of the employee's request the form is not mandatory), Italy, Portuguese (written), Luxemburg (in case of dismissal on disciplinary grounds in written, on economic grounds only upon the employee's request), Finland and Sweden (in case of the employee's request in written, in Great Britain (after one year service in case of the employee's request).

The employers do not have obligation for justification in Belgium, Denmark, Netherlands and Austria. In Denmark, Belgium, Austria, Greece and Italy grounds are not necessary for dismissal, in case if the notification is provided within agreed terms.

### **Resolution of collective disputes**

Resolution of collective disputes on different stages and with different means is essential in following EU countries: Lithuania, Latvia, Estonia, Bulgaria (only in public sector), Slovakia, Romania, Poland, Spain, Sweden, Finland, Malta, and Cyprus. There are several institutions for dispute resolution, which are the most frequently applied in different countries. One of these institutions is public institute represented by labor administration, which is often used in Belgium, Denmark, Cyprus, Estonia, Finland, Malta and Romania. Independent agencies (LEPL) are also used for dispute resolution. They are the most frequently used in Austria, Hungary and Great Britain. Private companies the most frequently are applied in Greece and Italy. In some countries, the representative of the ministry of labor is appointed for dispute resolution. The most frequently this happens in Belgium, France, Check Republic and Slovakia. In some cases, the parties themselves create autonomous bodies for conflict resolution. This system is the most frequently applied in Germany, Lithuania, Latvia, Netherlands, Poland and Slovenia.

All above listed changes increase expenses for entry and exit labor relations tightens regulations of such relations and increases the role of state in collective dispute resolution process, compared to the Labor Code in force. In Georgia lack of statistical data on labor market and experience of changing regulatory policy, do not give possibilities for analyzing expected results of proposed changes, based on statistical

data. Consequently, the directions of possible effects are defined based on the surveys, which study labor market institutions and effect of their changes on economic indicators.

OECD in its 1994 report, while searching the causes of different levels of unemployment in OECD member states, highlights the importance of the labor market institutions and advises member states to deregulate the labor markets. The World Bank, in its 1990 report, develops the idea that labor market regulations aimed at improving the situation of employers were actually harming them.

**“Labor market policies – minimum wages, job security regulations, and social security – are usually intended to raise welfare or reduce exploitation. But they actually work to raise the cost of labor in the formal sector and reduce labor demand ... increase the supply of labor to the rural and urban informal sectors, and thus depress labor incomes where most of the poor are found.”<sup>4</sup>(p.63)**

In the end XX century, many papers were prepared on the impact of labor market institutions on economy. The most of papers are dedicated to study of the experience of developed countries. They will be briefly reviewed in the report, mostly concentrating on the ones, the scope of which goes beyond the experience of developed countries.

What is the possible mechanism through which regulations effect on economy? Tightening regulations, which means complication of procedures for dismissal of the employee and increase of expenses, complication of drawing collective agreement and/or procedures for collective dismissal, does not provide entrepreneurs with possibility of rapid correction of their actions, which reduces possibility for effective distribution of resources and labor turnover. The latter will be reflected on long-term unemployment, in case of losing job. If entrepreneurs fail in reflecting expenses increased by regulations, in reduced salaries, the unemployment level will be increased. Restriction of concluding fixed term contract is also a challenge, which affects employment structure. Artificial facilitation of permanent contracts will raise so-called insiders’ problem, when condition of potential employees (outsiders) is getting worse.

In order to observe whether mentioned theoretical hypothesis are confirmed or not in empirical studies, related research are reviewed below.

Nickell and Layard’s survey<sup>5</sup>, studying the experience of 20 OECD member states, suggests that the increase of tax wedge, benefit duration, union density<sup>6</sup> and union coverage<sup>7</sup> increases overall unemployment as well as long-term unemployment. According to the research, the effect of EPL on unemployment is insufficient.

Blanchard and Wolfers<sup>8</sup> based on Ordinary Least Square method, analyze the impact of labor market institutions on unemployment in 20 OECD member states, in the period of 1960-1995. The effect of unemployment benefit, tax wedge, benefit duration, EPL, law on minimal salary and union density on unemployment is positive, thus, tightening these factors is associated to increase of unemployment. Besides, the importance of labor market institutions is increased, when macroeconomic shocks are also included in analyses.

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<sup>4</sup>World Bank, World Development Report 1990 (New York: Oxford University Press. 1990)

<sup>5</sup> Layard, Richard and Nickell, Stephen, “Labor Market, Institutions and Economic Performance” Handbook of Labor Economics ed. By O. Ashenfelter and D. Card (Amsterdam North-Holland, Vol. 3E. 1999)

<sup>6</sup>Density of trade union is determined by the proportion of the number of trade union members with total number of employees.

<sup>7</sup>Union coverage is number of employees which are not the union members, but are the party of collective or trade union agreement added to the number of trade union members.

<sup>8</sup> Blanchard, Oliver and Wolfers, Justin, “The Role of Shocks and Institutions in the Rise of European Unemployment: the Aggregate Evidence”, Economic Journal, Vol. 112, pp 879-90 (2000)

Based on the data of companies, Gomez-Salvador, Messina and Vallanti<sup>9</sup> analyze the impact of labor market institutes in different directions, as following: job reallocation rate, new jobs creation coefficient and job destruction coefficient. Based on the survey results, EPL has negative and statistically important effect on job reallocation rate, reduces new jobs creation coefficient and has negative, but statistically not significant effect on job deterioration coefficient. Unemployment subsidizing policy and tax wedge of employment has negative impact on job creation. The analysis of sensitivity of the survey demonstrates that the results are robust in different specifications of the model.<sup>10</sup>

Initiated amendments to the Labor Code of Georgia: restrictions on concluding term contracts, complication of the procedures of employee's dismissal and massive dismissal are employees' protective mechanisms in their content. But, the most of empirical surveys identify that EPL has no effect or has slight negative effect on aggregated indicator of employment, also has significantly negative effect on employment of youth, women and on people with low education, it also increases a duration of unemployment and being beyond labor force. Besides, develops problems in the process of adapting with economic crisis. The results of negative shocks are rather negative in the countries where the tools for protecting employees are relatively strict.<sup>11</sup>

Botero, Juan, Djankov, Simeon, La Porta, Rafael and Lopez-de-Silanes, Florencio<sup>12</sup> study the effects of regulation of labor market in less developed countries based on statistical data of 85 countries. The effects of regulating dismissal and overtime work, collective bargaining and social security on labor market are described in the research. The research studies expected effects of regulating labor market, including its impact on the share of informal economy in total economy, as well as on labor force volume and unemployment rate in different age groups. The results of analyses demonstrate that regulation of labor market, the goal of which is neutralization of the problems caused by so called "market failure", in reality does not have any positive effect. On the contrary, for example, strict regulation of collective relations is associated with high share of shadow economy in total economy; the legislations on labor, collective relations and social security law maintain reduction of labor force, thus, EPL is reflected in increase of unemployment. Negative effects are much stronger in case of young labor force, namely they are the mostly affected with such legislations.

Feldmann<sup>13</sup> studies the effect of regulations in developed and developing countries. The research analyses experiences of 73 countries is analyzed in the survey. One of the clear effects identified, is negative impact of strict regulations of recruitment and dismissal, on employment rate. Negative effect significantly increases in case of youth and women. For demonstration of possible negative results, an example of Italy can be discussed. Italy has quite strict market regulations. If Italy had flexible regulations of labor market like USA, its total unemployment level would be in average in 2.3% lower

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<sup>9</sup> Gomez-Salvador, Ramon; Messina, Julian and Vallanti, Giovanna, "Gross Jobs Flows and Institutions in Europe" European Central Bank working paper series, no. 318 (2004)

<sup>10</sup>As we mentioned number of such surveys is high. See the following surveys:: Fitoussi, J.P., Jestaz, D., Phelps, D. and E.S. Zoega, "Roots of the Recent Recoveries: Labor Reforms or Private-Sector Forces?", Brookings Papers on Economic Activity, Vol. 1, pp. 237-312. (2000); Mourre, "Has the pattern of aggregate employment growth changed in the euro area in recent years?", ECB working paper series, no 358 (2004); Heckman, James J. and Carmen Pagés, "The Cost of Job Security Regulation: Evidence from Latin American Labor Markets", *Economía*. 1 (1): 109-154, (2000); Nickell, S.J., L. Nunziata, and W. Ochel, "Unemployment in the OECD since the 1960s. what do we know", *The Economic Journal* Vol. 115 pp 1-27, (2005)

<sup>11</sup>See: Betcherman, Gordon, "Labor Market Institutions: A Review of Literature" Background Paper for World Development Report 2013.

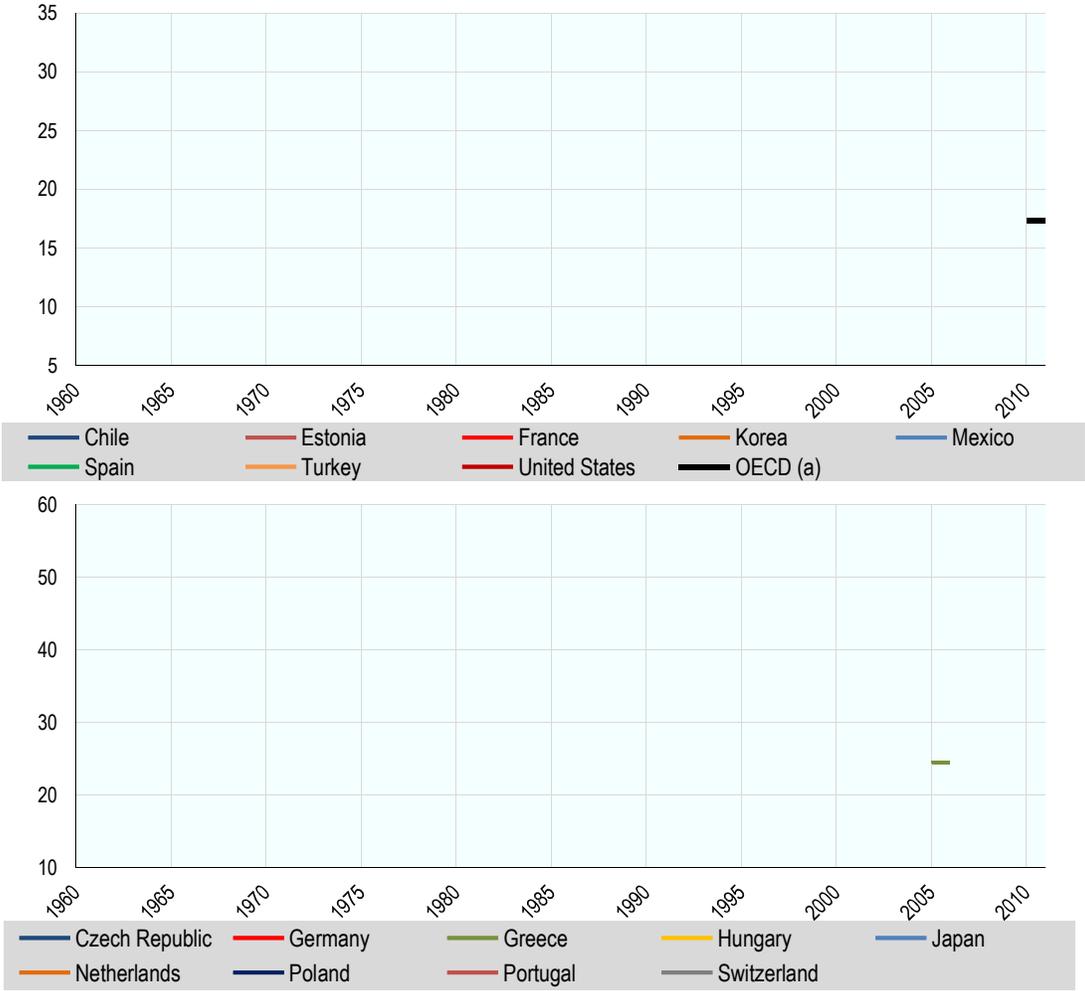
<sup>12</sup>Botero, Juan, Djankov, Simeon, La Porta, Rafael and Lopez-de-Silanes, Florencio, "The Regulation of Labor" *The Quarterly Journal of Economics*, Val. 119, Issue 4, pp. 1139-1382 (2004).

<sup>13</sup>Feldmann, Hornst, "The Unemployment Effects of Labour Regulation around the World", *Journal of Comparative Economics*, Cal. 37, Issue 1, pp. 76-90, (2009)

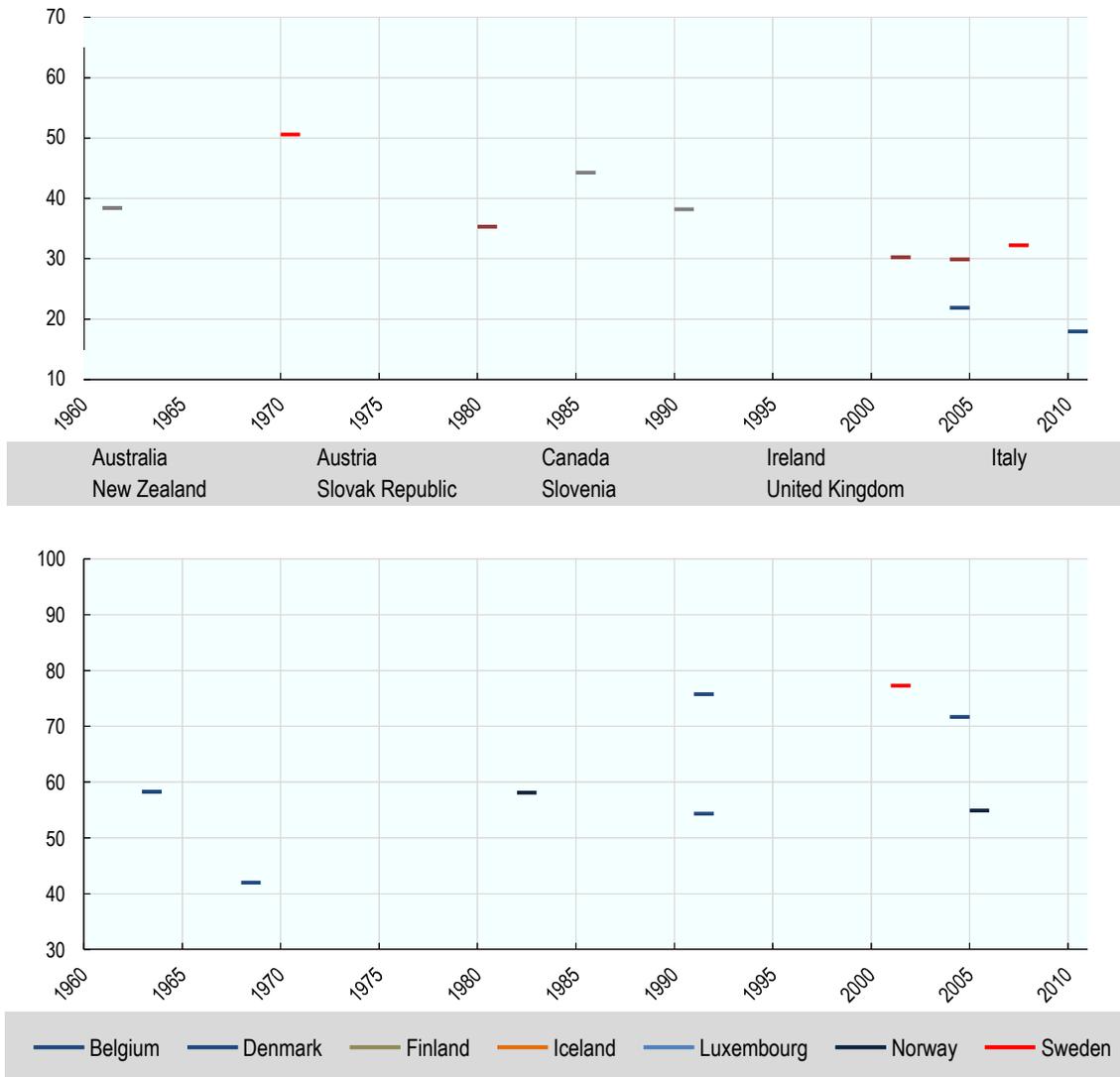
than existing one, among women unemployment would be in 2,6% lower and in case of youth it would have been 5,6% lower.

Bernal-Verdugo, Lorenzo, Furceri, Davide and Guillaume<sup>14</sup> study also the effect of labor market regulations in developing countries. The issue of flexibility of labor market and unemployment is analyzed in the report, in both static and dynamic areas. Mentioned survey is the largest among those conducted before. It covers the experience of 95 countries in the period of 1995 – 2008. The flexibility of labor market is determined by following factors: (1) policy of minimal wages, (2) regulation of recruitment and dismissal, (3) quality of centralization of collective bargaining and so on. Relationship between a flexibility of labor market and unemployment is analyzed at first stage of the study. The results demonstrate that regulation of labor market has significantly negative effect on employment indicator, regulations and expanses for recruitment and dismissal have especially high negative effects. Increase of the flexibility of labor market reduces unemployment in cases of developed and less developed countries. As for dynamic effects of labor market, the study confirms that the flexibility of labor market reduces unemployment change indicator. Improvement of labor market index in one standard deviation in 0.35 – 0.49 percent reduces unemployment change indicator.

The importance of trade unions is dramatically decreased worldwide, during last 40 years. The charts demonstrate dynamic of percentage indicator of union density in several countries in 1960 – 2010



<sup>14</sup>Bernal-Verdugo, Lorenzo, Furceri, Davide and Guillaume, Dominique, “Labor Market Flexibility and Unemployment: New Empirical Evidence of Static and Dynamic Effects”, IMF Working Paper, (2012)



31 Average weighted indicator of the country  
 Source: OECD Data Base on Trade Unions – www.oecd.org

According to the initiated amendments, the minister of labor, health and social affairs can get involved in conciliatory procedures, without application of the parties. Besides, in case of mass dismissal the companies are requested to notify the ministry. Mentioned change does not facilitate to formation of sustainable political institutes, since sustainability of political institute depends on the efficiency of the institute in terms of adapting to challenging situations<sup>15</sup>. In case of changes, it is possible that bureaucratic institute will not make political decisions of economic effectiveness. Besides, in the event of introduction of this regulation, probability of political corruption is being increased.

Discussed surveys demonstrate that tightening the regulations of labor market, despite of declared goals, that it is focused on improvement of employments' condition, in fact negatively impacts creation of new jobs, increases probability of the increase of the share of shadow economy and complicates possibility for adaptation with economic crises.

<sup>15</sup>Pennington, Mark, Robust Political Economy: Classical Liberalism and the Future of Public Policy (Edward Elgar, 2011)

Analyses of the results of empirical surveys give possibility for assessing directions of the changes planned in the labor code of Georgia. As mentioned above, initiated changes could be summarized as following: tightening procedures for concluding and termination of individual contracts, regulation of mass dismissal and increase of state's role in collective disputes resolution process. Each change has marginal effect on development and functioning of labor market.

Tightening regulations for concluding and termination of labor contracts clearly increases expenses for relations between the businessman and an employee, which will decrease demand for labor force. Decrease of the demand for labor force will have negative impact in creation of new jobs. Restricting possibility for concluding fixed term labor contract is also a challenge. Taking into consideration the level of development of Georgian economy and uncertainty of business environment, it is difficult to formulate long-term expectations (on which business decisions are based). Consequently, the burden of permanent contract encourages the entrepreneurs not to create new jobs, in order to reduce the risks of uncertainty of business environment; while fixed term contracts provide more flexibility to entrepreneurs and consequently more motivation for creating new jobs. Collapse of the mechanism, which provides businessman with possibility for making decisions bravely, finally has negative impact on creation of new jobs and increase of unemployment in general.

Strengthening state's role in mass dismissal and collective disputes and possibility of its direct involvement in this process, enhances state's influence on business environment. The representatives of political institutes most likely seek to make decisions in compliance with their political and personal interests. In case of mass dismissal, it will be difficult for any politician to make unpopular decisions. According to the strength of the groups of interests, we often deal with populist decisions or formation of distorted relations between the state and business (corruption deals and so on). The situation is aggravated by the fact that the country's political institutions are in formation process and in such conditions introduction of ineffective mechanisms in this situation, will hamper to the development of institutions.

Besides direct economic effect, tightening labor market regulation can also complicate adaptation with economic crises. Reduction of the flexibility of labor market, which is the result of the increase of regulation, reduces businessmen's possibility for rapid response in case of economic crisis. As a result, in case of worsening economic condition rapid recovery will be impossible. Flexible labor market ensures possibility for rapid adaptation, even for the countries with small economy, which are too sensitive towards global crisis or similar negative shocks.

Based on the analyses of the results of empirical surveys and changes planned in labor code, it could be said that the mentioned changes will have negative impact on economic and social contrition of the country.

## Conclusion

Compared to existing version of the Labor Code, the new amendments are going to tighten mechanisms for labor market regulation. The goal of the survey is identification of possible effects of planned changes and analyses of the attitude of business managers towards these changes. In order to assess the expected effect of labor market regulations on country's economy, this research report analyses the results of empirical surveys on related issues and studies the experiences of other countries. Besides, the report analyses results of the survey, which is conducted to research business leaders' attitudes \ to the initiated amendments to labor code of Georgia.

The results of empirical studies clearly demonstrate effects of regulating labor market. Tightening regulations is reflected in increase of unemployment (especially among the youth and women), decrease of job creation, increase of the share of shadow economy and decrease of capability of country's economy to adapt in case global economic crisis, or other kind of negative shocks.

The report provides analyses of the results of the survey of business leaders' attitude to the amendments to Labor Code of Georgia. Single articles of the Labor Code were distributed for assessment to the managers of organizations. Assessing the amendments in total, approximately 46% of business leaders think that these amendments will not have a positive effect on the improvement of the business environment. Approximately, 51% of the interviewed business leaders believe that the amendments would not have positive effect on the creation of new jobs.

While assessing any legal document or policy it is important to take into consideration expected results. The majority of theoretical or empirical surveys on regulating economy demonstrate that the regulations have different results from the goals. Consequently, assessment of the policy with the goals is not effective method. Based on the results of empirical surveys reviewed in the report, we can indicate that tightening the labor code for protecting the employees in fact will create serious problems for economic development.

## Recommendations

In assessing business environment, which is the component of any investment decision, attention is paid to macroeconomic data, Tax and Labor Codes, Court system and so on, not separately but in general. In developed countries, relatively strict labor legislation might be compensated by stable macroeconomic environment, or well developed court system. However, the analyses of OECD countries demonstrate that strict labor regulations have negative effect even in these countries. In less developed countries, where macroeconomic stability is lower and the court system is not well developed, burdening economy with additional regulations decreases motivation for making new investments.

Based on the analyses of empirical surveys and the survey of the attitude of businessmen towards amendments to the Labor Code and taking into consideration economic condition of Georgia, the report provides the following recommendations:

- Restrictions on fixed term contract shall be reduced maximally or abolished;
- In the event of termination of labor relations, equality of employer and employee shall be ensured, which means freedom of starting and ending such relations for both parties;
- Quality of freedom of drawing collective agreements shall be increased; trade unions shall not have monopoly condition provided by the law, to proceed collective bargaining on behalf of employees;
- Participation of the Minister of Labor, Health and Social Affairs in collective disputes resolution process shall be fully excluded.

### **3. Annex 1 - Results of the survey of business leaders' attitudes to the initiated amendments to the Labor Code of Georgia**

The amendments initiated to the Labor Code of Georgia, will be significantly reflected of business processes. Thus, survey of business leaders' attitude to the initiated amendments to the labor code of Georgia is conducted. For this reason, the statements of individual articles were given to business leaders for assessment. The respondents assessed the amendments hypothetically, in generalized form. In total 17 statements were prepared:

- Award the contract/probationary period (5 statements)
- Overtime (3 statements)
- Suspension/termination of labor contract (3 statements)
- Mass dismissal (1 statement);
- Termination of employment (1 statement);
- Collective dispute (2 statements)
- Strike/lockout (2 statements);

Upon assessing individual statements, interviewed business leaders were asked to list particular changes, which they will implement in their companies, in case if initiated amendments to the labor code of Georgia is accepted. They were also asked about the solutions for particular problems, in case of their occurrence.

In the end of the interview, the respondents are asked to assess expected results of initiated amendments on business environment and on creation of job opportunities.

### 3.1. Conclusion of the contract/Probationary period

#### Assessment of individual regulations and impact of each of them on companies;

The following subsection presents 5 regulations related to contracting and probation period. The respondents assess each statements and their individual expected impact specifically on their own companies.

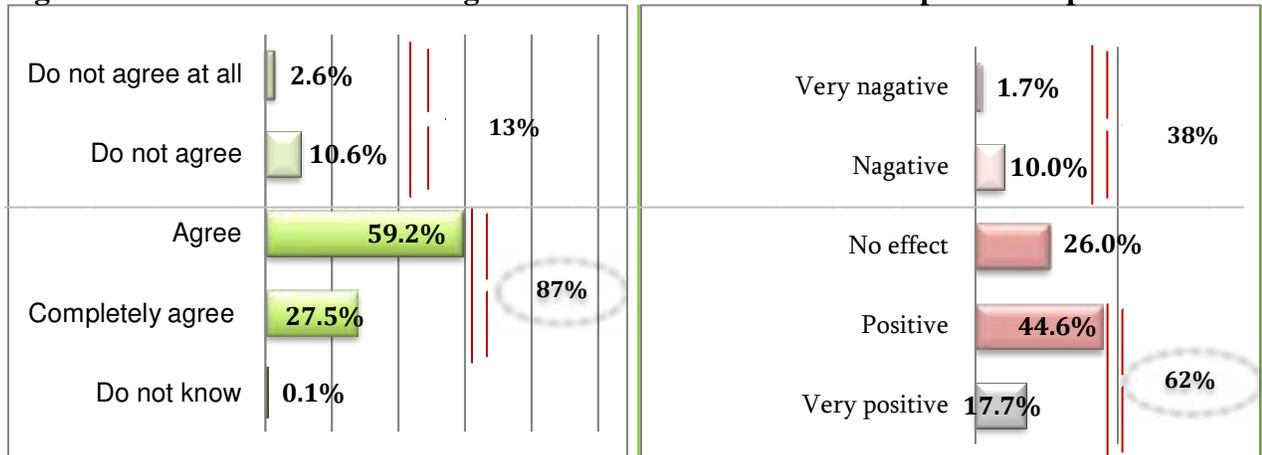
#### 3.1.1. Statement #1

**Statement #1** - Labor contract shall be concluded in written form in case if labor relations last for more than three months.

Absolute majority of the interviewed businessmen (87%) agrees with written form of contract, in case if labor relations will continue for more than three months; about one third of interviewed respondents fully agree with given statement (28%). Small part of the interviewed leaders of organizations (13%) stated that they do not agree with written contracting (see chart # 1).

Even though absolute majority of the respondents agrees with given statement, in the event of its introduction as mandatory rule, their one third still does not think that this change would have positive effect on their companies. However, 62% of the respondents still think that such change would have positive impact on business organizations. It is to be mentioned that just 17% of the respondents expect very positive results from these changes. The survey demonstrated that only 12% of respondents have very negative expectations regarding the effects of mentioned statement. (see chart #1).

**Figure #1 - The conclusion of an agreement in a written form and its possible impact on the company**



Sample size N=251

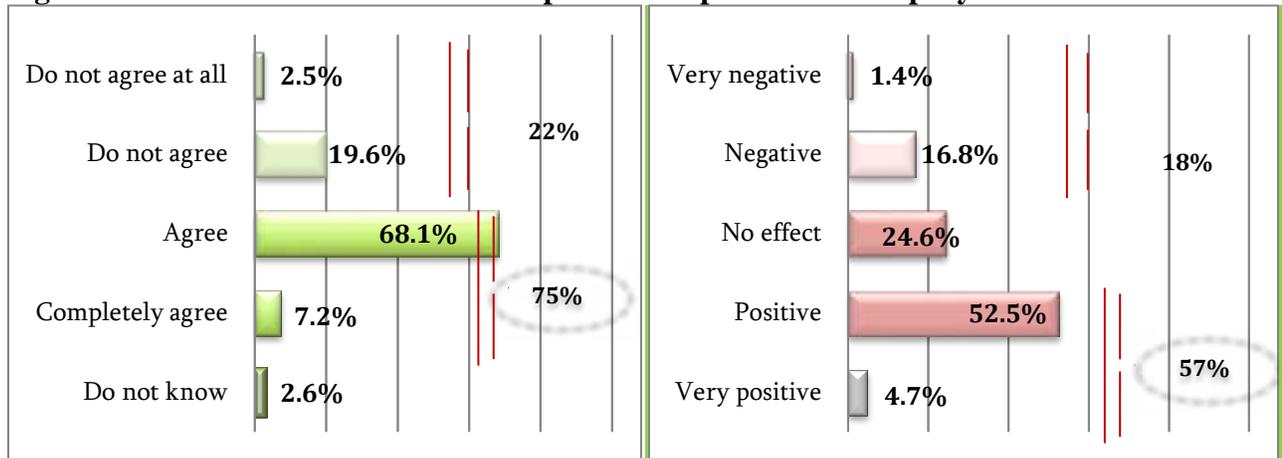
#### 3.1.2. Statement #2

**Statement #2** - Employer has the right to conclude a fixed-term contract with employee only in certain circumstances. In particular when the work is related to: (1) performance of the work of particular volume; (2) seasonal work; (3) temporary increase of the volume of work (4) substitution of the employee, who is not working temporarily, on the bases of suspension of labor relations (5) due to other objective circumstances. In any other case the employer has no right to conclude fixed term labour contract.

Majority of the respondents (75%) consent with written form of contracting only in particular cases, however 1/5 of respondents state that they do not approve given statement (22%) (See chart #2).

Even though absolute majority of respondents agrees with written form of contracting just in particular cases, in case of its introduction as mandatory rule, half of them (43%) still do not consider that this change will have positive impact on their companies. The survey demonstrated that every fifth respondent states negative expectations regarding statement 1.1.2 (18%) (see chart 2).

**Figure # 2 - Fixed term contract and the potential impact on the company**



Sample size N=251

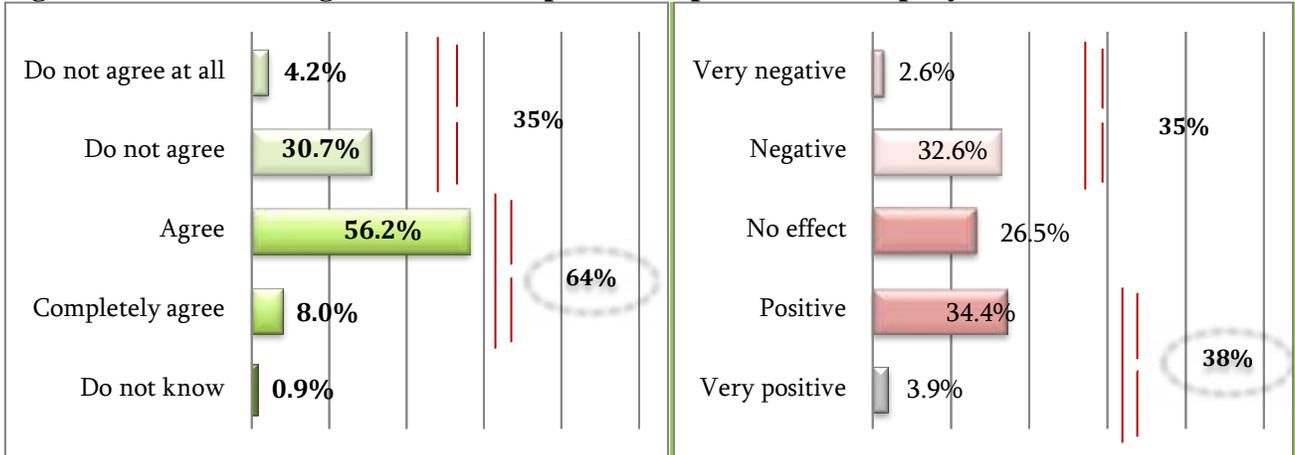
**3.1.3. Statement #3**

**Statement #3** – In case of collective agreement the employer has no right to conclude individual contract with the employee for the same position, with worse contract term than provided in collective agreement

Majority of interviewed leaders of organizations (64%) agree with particular restrictions on written contracting, in case of collective agreements. It is to be mentioned that respondents’ 1/3 does not agree with given statements (35%) (see chart 3).

In the event of introduction of the restrictions on individual contracting in case of existence of collective agreement, as mandatory rule 1/3 of the respondents consider that given change will have negative impact on their organizations (35%). According to 38% of respondents such change will have positive impact on business organizations, and 27% do not expect any impact in case of introducing mentioned rule (see chart #).

**Figure # 3 - Collective agreement and its possible impact on the company**



Sample size N=251

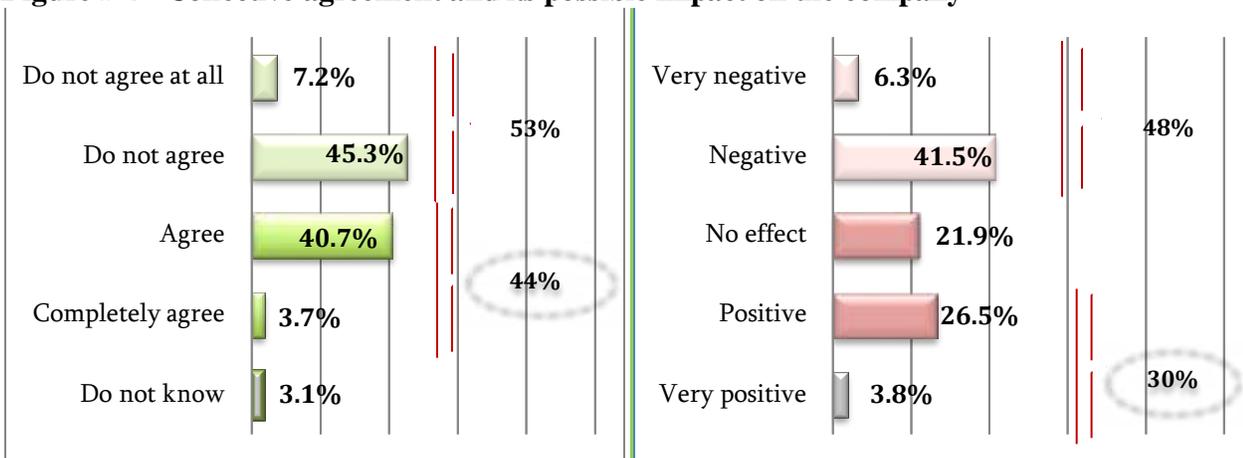
**3.1.4. Statement #4**

**Statement #4** – In case of **collective agreements** employer, within the frame of company’s material and financial capacity, is obliged to provide **trade unions** with conditions necessary for their operation (provide premises, equipment, communication means) at company’s own expenses.

Majority of respondents (53%) does not agree with commitment for ensuring working conditions for trade unions in case of collective agreement. However, 40% of the respondents state their agreement with given statement (see chart #4).

In the event of introduction of given regulation as mandatory rule, about half of the respondents (48%) think that such change would have positive influence on business organizations. The survey demonstrated that every fifth respondent does not think that such rule will have any influence on their companies (22%) (see chart #4).

**Figure # 4 - Collective agreement and its possible impact on the company**



Sample size N=251

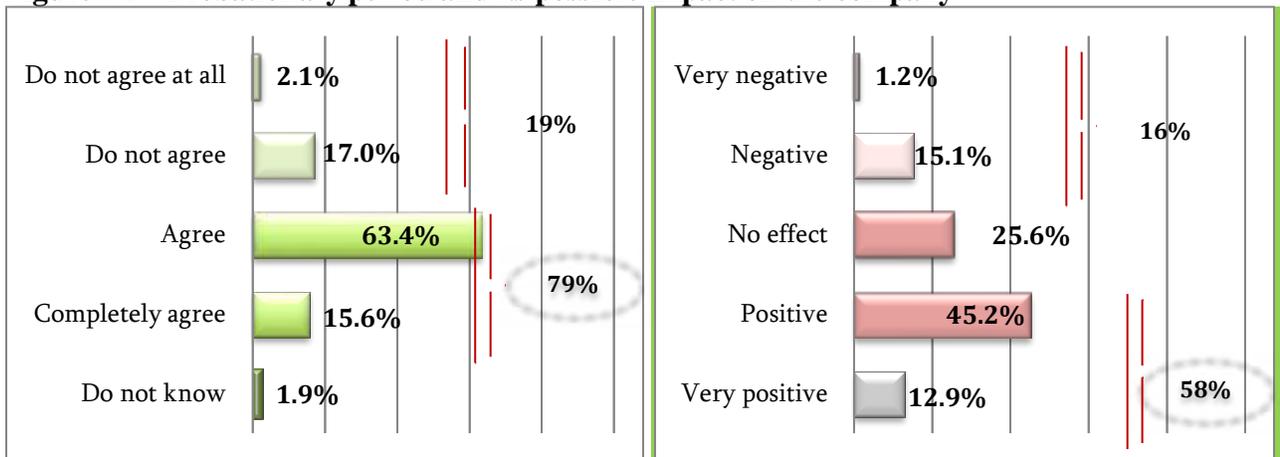
**3.1.5. Statement #5**

**Statement #5** - An employer shall reimburse the **probation period**. The amount of reimbursement shall be determined by agreement between employer and employee.

Majority of the respondents (79%) agree that work for probation term should be paid. However, 1/5 of the interviewed leaders of organizations state that they do not agree with given statement (19%) (see chart #5).

Even though the majority of respondents agree with this statement 5, in case of its introduction as mandatory rule, their 42% don't consider that this change will have positive influence on their companies. However, 58% still think that such change would have positive influence on business organizations. The survey demonstrated that just small part of the respondents (16%) has negative expectations, and every fourth respondent does not expect any impact of this change on his/her company (26%) (see chart 5).

**Figure # 5 - Probationary period and its possible impact on the company**



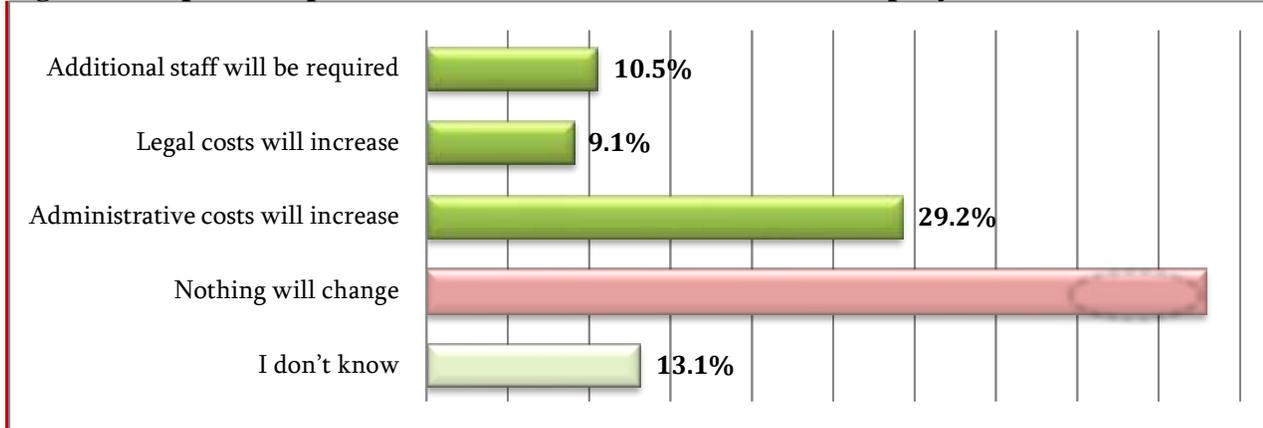
Sample size N=251

**3.1.6. Expected impact of the initiated amendments, evaluation based on all statements**

The present subchapter totally assesses possible impact on companies in case of introduction of all five regulations on contracting and probation term as mandatory rules.

Almost half of the respondents (48%) do not think that given changes concerning contracting and probation period will have any impact on their companies. It is difficult for 13% to assess possible income at this stage. It is to be mentioned that increase of administrative expenses are mentioned as possible change the most frequently (29%). In particular, cases (10%) need for additional staff and increase of legal expenses are expected (see chart 6).

**Figure 6 – expected impact of the initiated amendments on the company**

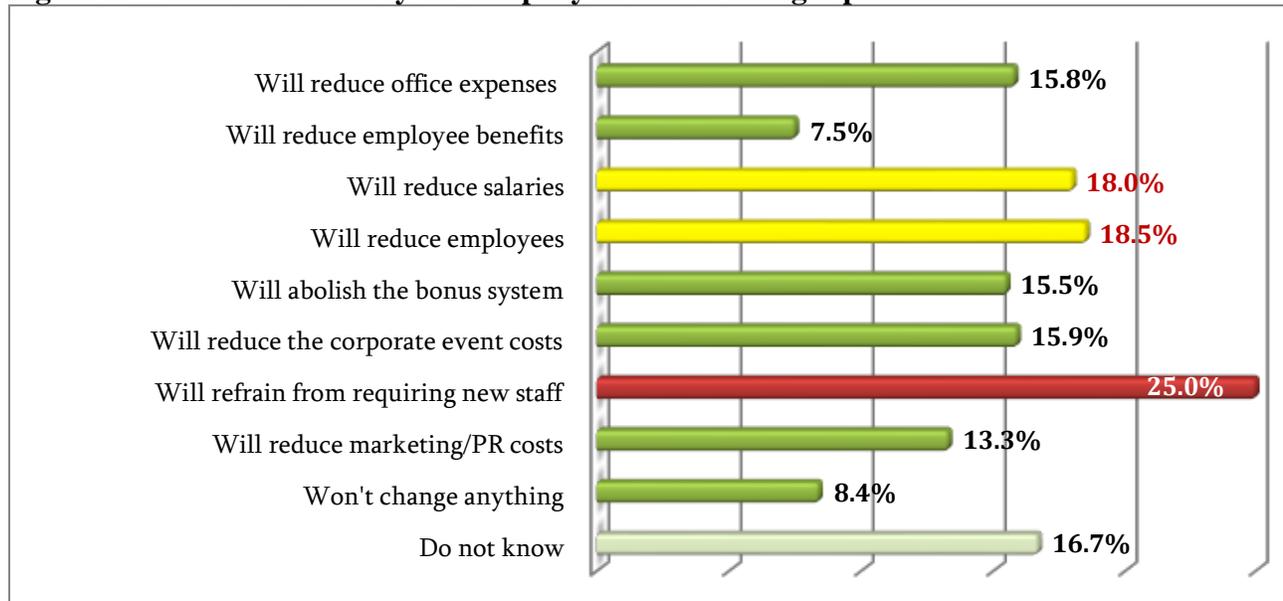


Sample size **N=251**

Note: total responses are more than 100 %, because more than one answer was permitted

Only the respondents, who are expecting changes in the company due to introduction of above mentioned statements as mandatory rules are asked the following question. It is to be mentioned that every fourth respondent assumes to impose certain restriction on recruitment of new staff. According to the responses, almost every fourth of interviewed business leaders is going to reduce staff members and salaries for the purpose of preventing problems, possibly caused by the mentioned changes. Almost every sixth respondent considers reducing office expenses, reducing savings for corporative events and modification/abolishment of bonus system. It is difficult for 17% to predict any actions in advance, and 8% thinks of not doing anything (see chart #7).

**Figure #7 – measures taken by the company in case of changes/problems**



note: total responses are more than 100 %, because more than one answer was permitted

### 3.2. Overtime Work

#### Assessment of separate statements and their expected impact on the company

Given subsection presents three statements related to overtime. The respondents assessed each statement and their impact on the company.

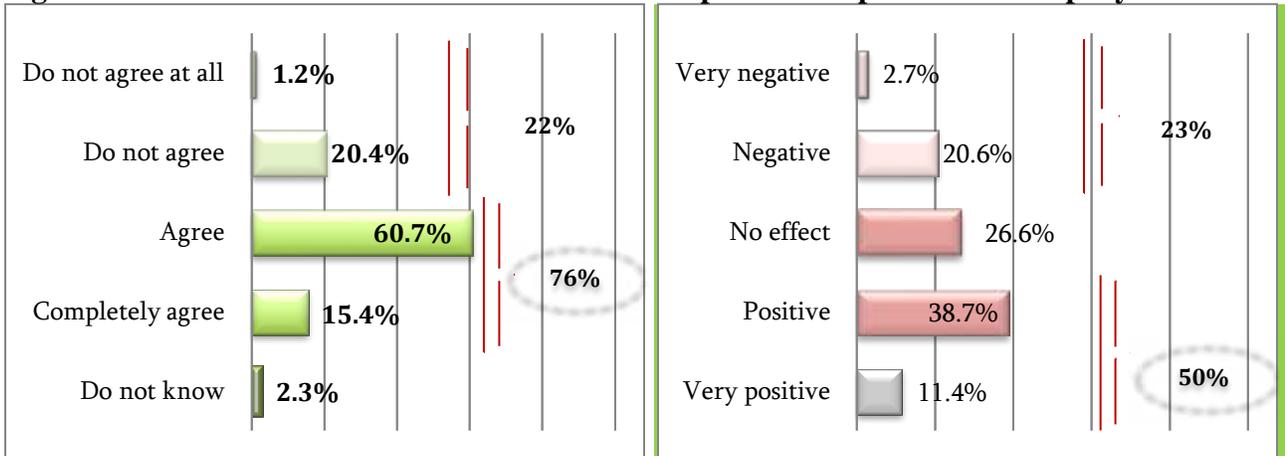
##### 3.2.1. Statement #6

**Statement 6** - Employees shall work for no more than 40 hours per week, excluding breaks and holidays. Working more than 40 hours is considered as overtime work.

Majority of respondents (76%) agree to the definition of overtime work. However, almost 1/5 of the interviewed business leaders (22%) state that they do not agree with given statement (22%) (see chart 8).

Almost half of the respondents do not think that this change will have positive impact on their companies. However, the other half still thinks that this change will have positive impact on their business organizations. The survey demonstrated that about ¼ of the respondents (23%) have negative expectation regarding this statement and 27% of them do not expect at all that such change will have any impact on their companies (see chart #8).

**Figure # 8 – Definition of overtime definition and its potential impact on the company**



Sample size N=251

##### 3.2.2. Statement #7

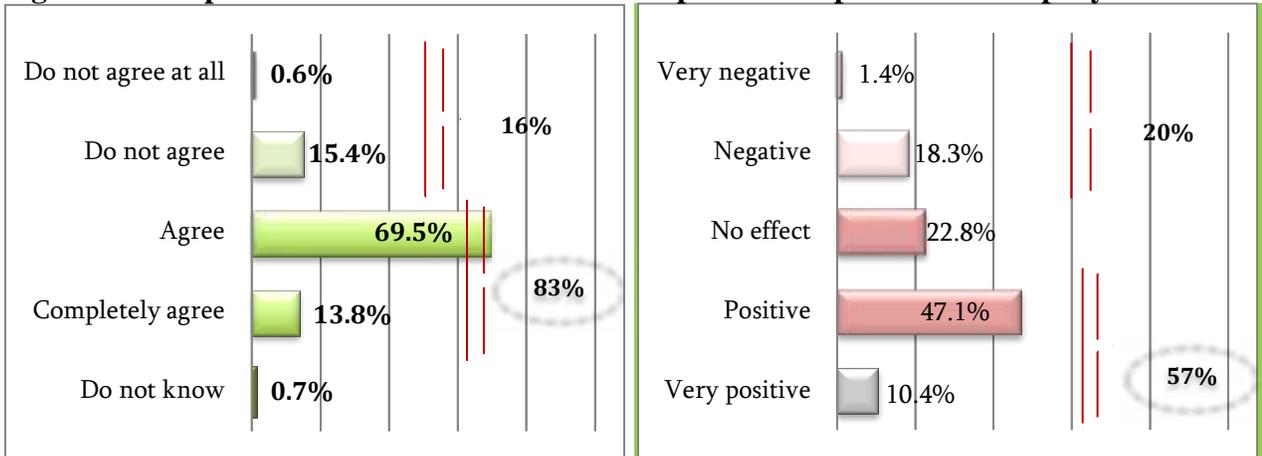
**Statement #7** - An employer shall reimburse employee additional overtime work or provide him/her with an additional vacation time.

83% of interviewed business leaders agree that reimbursement for overtime work should be mandatory for the employers and 16% of interviewed business leaders do not agree with given statement (see chart # 9).

In case of introduction mentioned statement as mandatory rule, 43% of interviewed business leaders think that mentioned changes won have positive effect on their companies and 57% of them think that such change will have positive impact on business organizations. The survey demonstrated that 20% of

respondents have negative expectations regarding this statement and their 23% expect that it will not have impact on their businesses (see chart #9)

**Figure #9-Compensation for overtime work and its potential impact on the company**



Sample size N=251

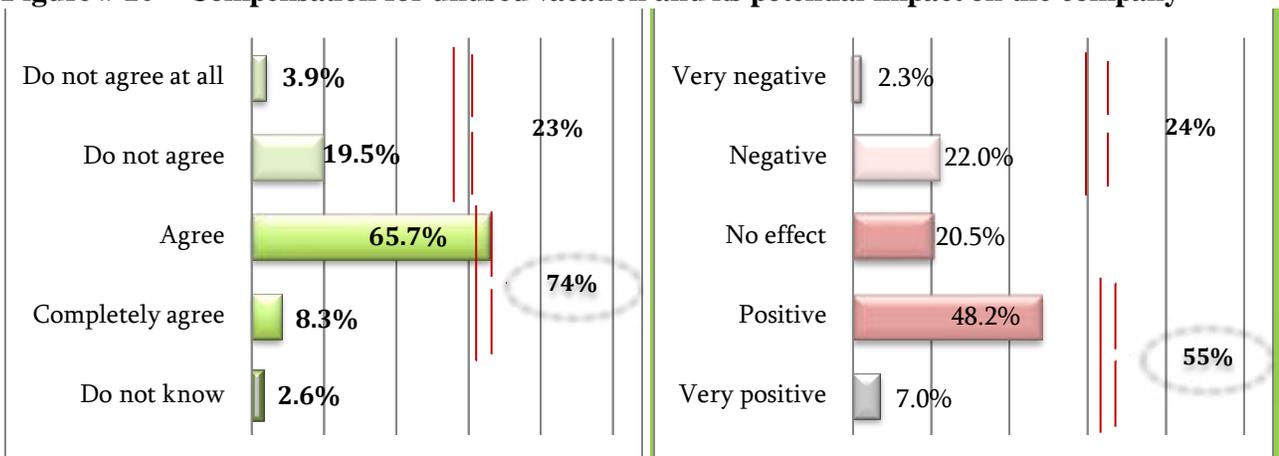
**3.2.3. Statement #8**

**Statement #8** - In case of employee dismissal, if s/he has unused vacation, an employer shall compensate it at his own expenses, proportionally to labor relations.

74% of respondents agree that in case of employee dismissal, if s/he has unused vacation, an employer shall compensate it at his own expenses, proportionally to labor relations (see chart # 10)

Even though the majority of respondents agree with statement #8, in case of its introduction as mandatory rule their 45% still do not think that this change will have positive impact on their companies. However, 55% still think that such change will have positive impact on business organizations. The survey demonstrated that 24% of respondents have negative expectations and every fifth interviewed one does not expect any impact on his/her business from this change (21%) (see chart 10).

**Figure # 10 – Compensation for unused vacation and its potential impact on the company**



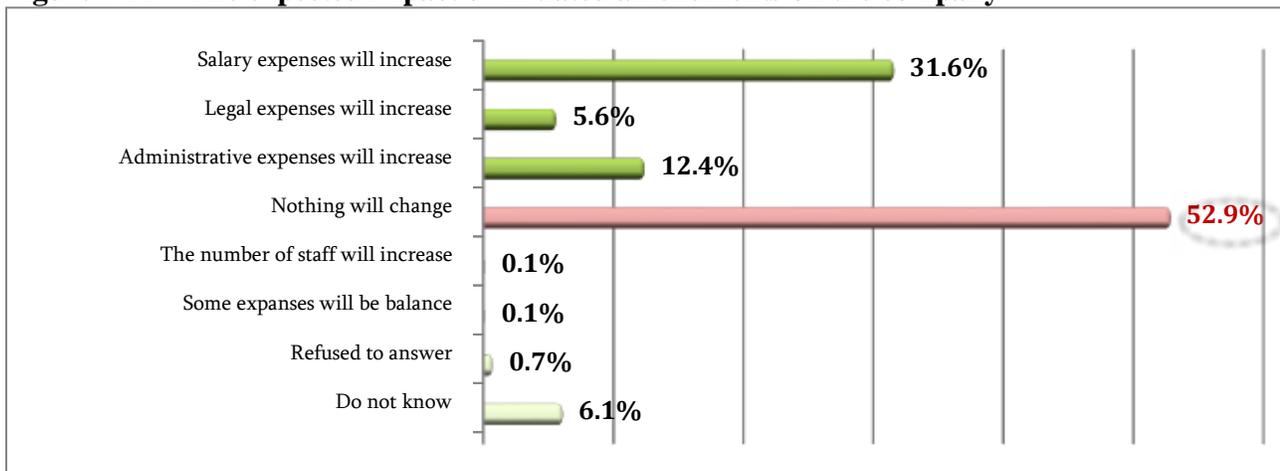
Sample size N=251

### 3.2.4. Expected impact of initiated amendments taken into consideration all statements

This subsection assesses expected total impact of above mentioned three statements, if they become mandatory rules.

53% of respondents do not consider that the adoption of statements related to overtime work will have any impact on their companies. It is worth mentioning that 32% of respondents consider that in case of adoption of these statements the allowance to be paid to staff is supposed to increase. Some businessmen's name that administrative and legal expenses will also increase (see chart #11).

**Figure # 11 – The expected impact of initiated amendments on the company**

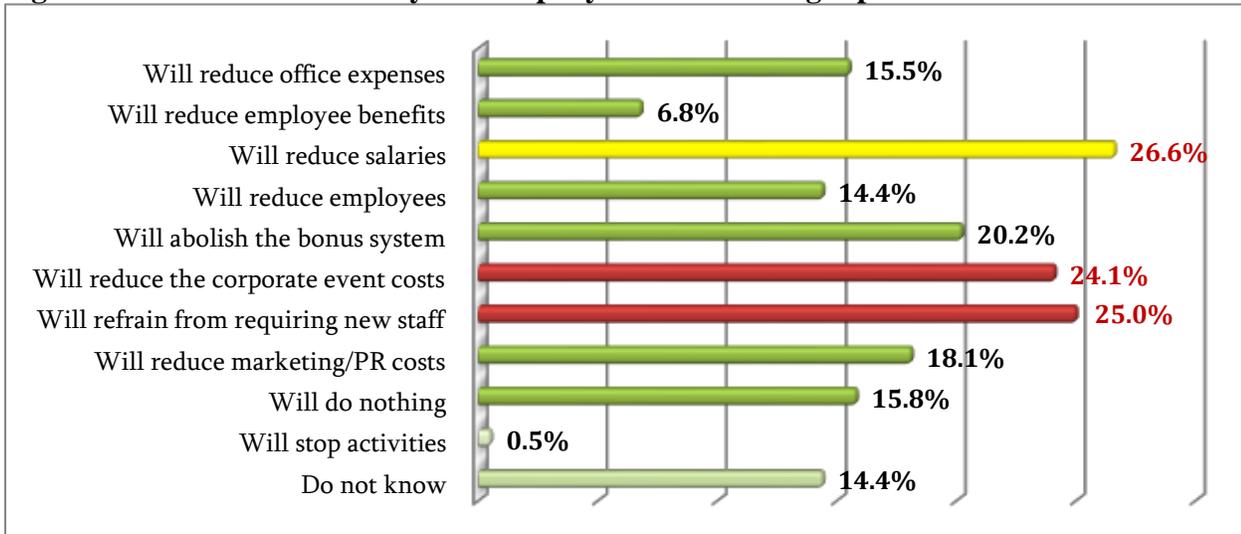


Sample size **N=251**

note: total responses are more than 100 %, because more than one answer was permitted

Given question is asked only to those respondents, who consider that in case of adoption the statements some changes are supposed to happen in company. Every fourth interviewed business leader assumes imposing certain restriction on recruitment of new staff, reduction of salaries and reduction of savings on corporative events in case the statements are adopted. Besides, every fifth of interviewed business leaders is planning to modify bonus system and to reduce expenses for PR and marketing, in order to avoid problems caused by these changes. It is to be mentioned that almost every sixth respondent mentioned that they would do nothing for avoiding these problems, while it is difficult for 14% of respondents to predict actions in given situation (see chart # 12).

**Figure # 12 - measures taken by the company in case of changes/problems**



note: total responses are more than 100 %, because more than one answer was permitted

### 3.3. Employment contract suspension/termination

#### Assessment of separate statements and their impact on companies;

This subchapter provides three statements on suspension/termination of labor contract. The respondents assessed each statement and their possible impact on their companies.

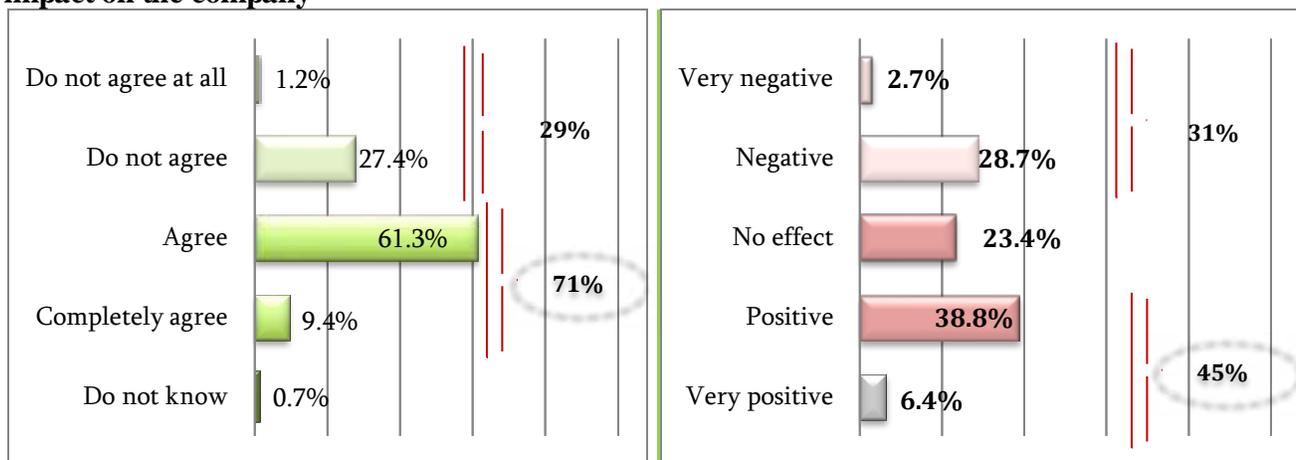
#### 3.3.1. Statement #9

**Statement #9** – an employer shall not dismiss an employee but suspend the labor relationships if an employee is temporarily unable to work, for no longer than 40 calendar days consecutively and 60 calendar days in total, during 6 months

71% of respondents agree that in the event of temporary incapacity of employee the employer shall just suspend and not terminate labor relations. 29% of interviewed leaders of organizations state that they do not agree with given statement (see chart #13). (71%)

Even though the majority of respondents agree with this statement, their 54% do not think that in case of its introduction as mandatory rule, this change would not have positive impact on their companies. However, their 45% still think that such change will have positive impact on business organizations. The survey demonstrated that 31% of the respondents have negative expectations and almost every fourth respondent (23%) does not expect that it will have any impact on his/her company (see chart #13)

**Figure # 13 – Termination of employee contract in case of temporary incapacity and its possible impact on the company**



Sample size N=251

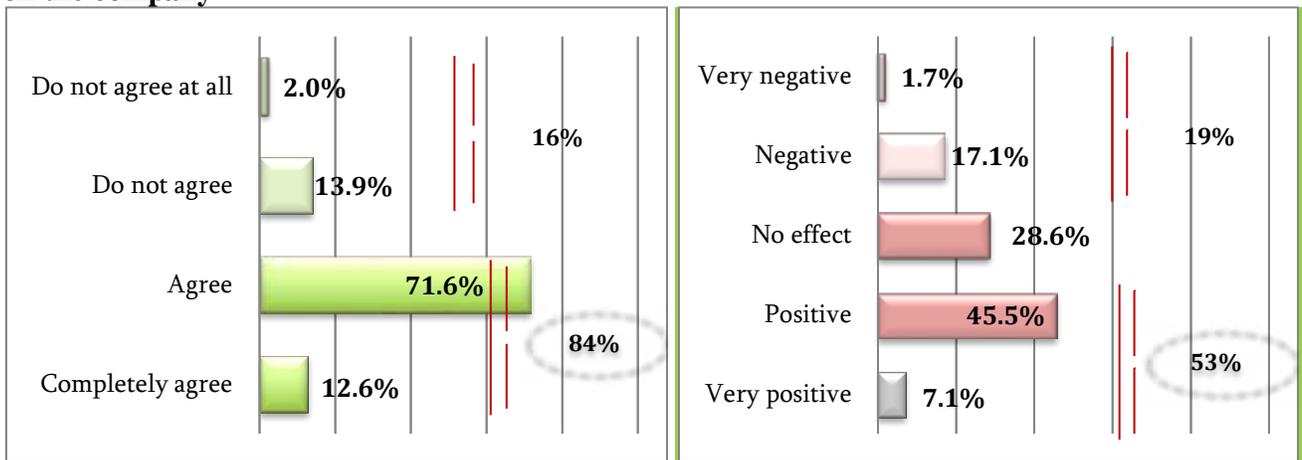
#### 3.3.2. Statement #10

**Statement #10** – The employer can terminate labor contract with an employee only in case of flagrant violation, however if there is no flagrant violation and the employee violated any of obligations, in order to dismiss the employee, the employer should already have used any disciplinary measure against him/her (for example warning)  
The employer shall not dismiss the employee for ordinary violation, if warning is not used at least once.

84% of the respondents agrees that the employee can be dismissed only based on grave violation, and the employer shall not dismiss the employee for ordinary violation, if warning is not used at least once, however 16% of interviewed business leaders state that they do not agree with given statement (see chart 14)

Even though the majority of respondents are not against this statement, their 48% do not think that in case of its introduction as mandatory rule, this change would not have positive impact on their companies. The survey demonstrated that 19% of the respondents have negative expectations and almost every fourth respondent (29%) does not expect any impact from this change on his/her company (see chart 14)

**Figure # 14 – Termination of employee contract in case of flagrant violation and its possible impact on the company**



Sample size N=251

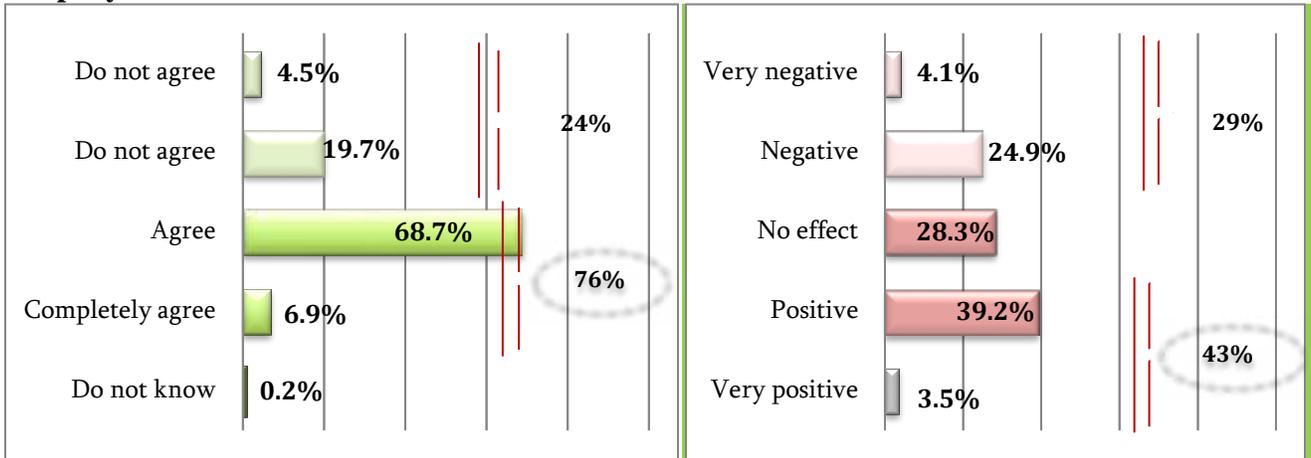
**3.3.3. Statement #11**

**Statement # 11** – The employee has right to request for written justification of his/her dismissal, which should be issued by the employer within 7 calendar days upon submission of the request.  
 The employee has right to appeal the decision on termination of labor contract at the Court, within 30 calendar days upon the receipt of written justification

76% of respondents agrees that the employee has right to receive written justification for dismissal from the employer, and appeal the decision within 30 days. 24% of the respondents state that they do not agree with this statement (see chart 15)

Even though the majority of respondents agree with this statement, their 57% do not think that in case of its introduction as mandatory rule, this change would have positive impact on their companies. However, their 43% still think that such change will have positive impact on business organizations. The survey demonstrated that 31% of the respondents have negative expectations and almost every fourth respondent (28%) does not expect any impact on his/her company related to the mentioned statement (see chart #15)

**Figure # 15 – Employee’s right to appeal against his dismissal in court and its possible impact on the company**



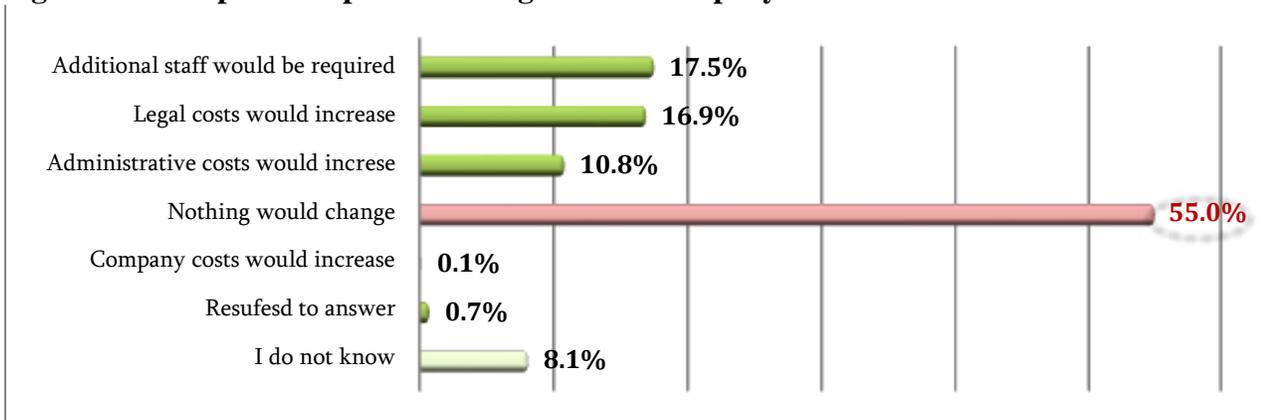
Sample size N=251

### 3.3.4. Expected impacts of changes taking into consideration all statements

This subsection provides evaluation of possible economic impacts of three statements related to mass dismissal in case of their introduction as a mandatory rule.

55% of interviewed business leaders do not consider that the changes regarding suspension/ termination of labor contract will have any impact on business companies. It is difficult for 8% to assess possible impact of mentioned statement. Businessmen name \ increase of expenses for recruitment of additional staff, increase of expenses for legal service, increase of administrative cost as expected results if mentioned statements become mandatory rule (see chart # 16).

**Figure # 16 – expected impacts of changes on the company**

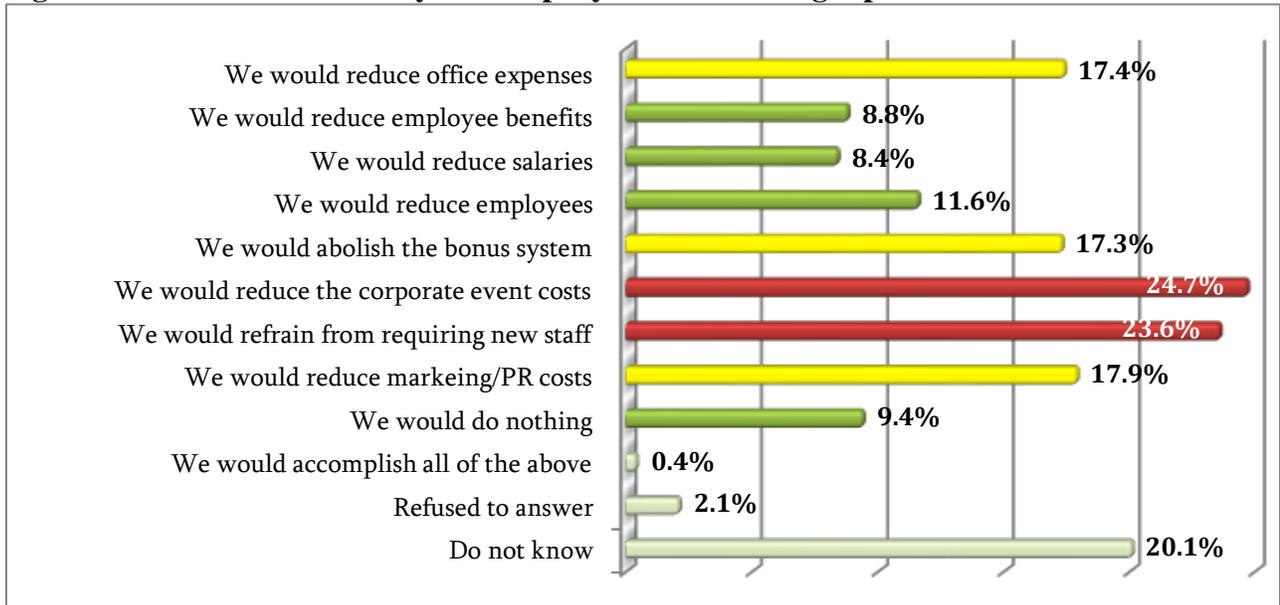


Sample size N=251

Note: total responses are more than 100 %, because more than one answer was permitted

Given question was asked just to the respondents, who in case of introduction of these regulations as mandatory rule expect certain changes in their companies. It is to be mentioned that every fourth interviewed business leaders assumes imposing certain restriction on recruitment of new staff, reduction of salaries and savings on corporative events. Besides, every fifth respondent would modify bonuses system and reduce expenses for PR and marketing, in order to avoid problems caused by these changes. It is to be mentioned that almost every fifth respondent mentioned that they would do nothing for avoiding these problems, while it is difficult for 9% to predict actions in given situation (see chart # 17).

**Figure # 17 – measures taken by the company in case of changes/problems**



Note: total responses are more than 100 %, because more than one answer was permitted

**3.4. Mass dismissal**

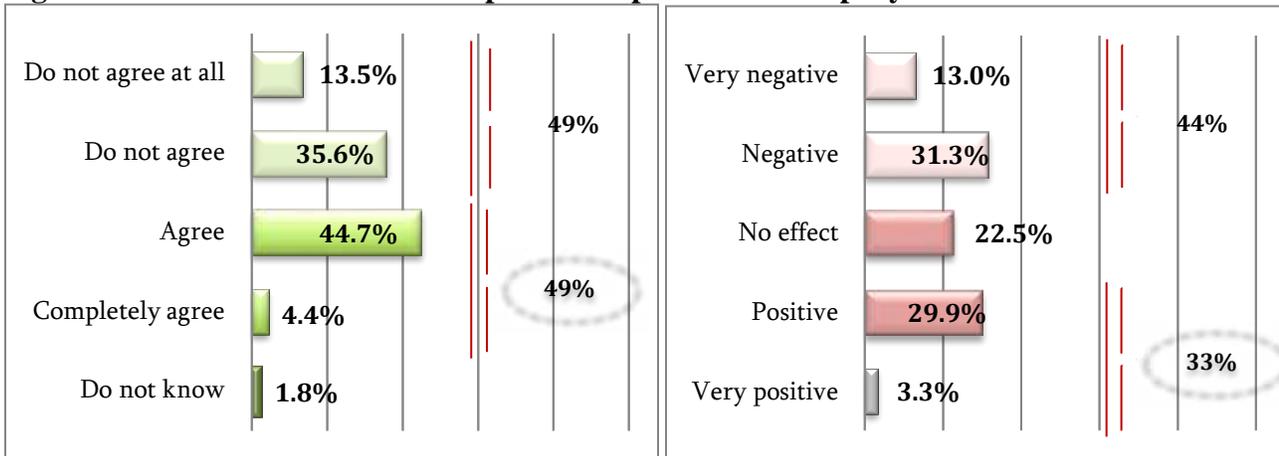
**3.4.1. Statement #12**

**Statement #12** – In case if the employer wants to implement collective dismissal (dismiss at least 50 employees within 15 calendar days) s/he shall notify the ministry in written form. The term for notification depends on number of employees in the organization and ranges between 15-30 days. If the management of the company with 100 – 500 employees wants to dismiss 50-100 employees, the Ministry shall be notified 15-30 days prior.

The respondents’ opinion was equally divided, half of the respondents agree with given statement on mass dismissal, and the other half does not agree (49%-49%). See chart #18)

In case of introduction of given regulation as mandatory rule, almost half of the respondents (44%) assumes, that this change will have negative effect on their companies. Almost 1/3 of interviewed businessmen (33%) have positive expectation, and every fifth respondent does not expect any effect of this change on his/her business organization (23%) (see chart #18)

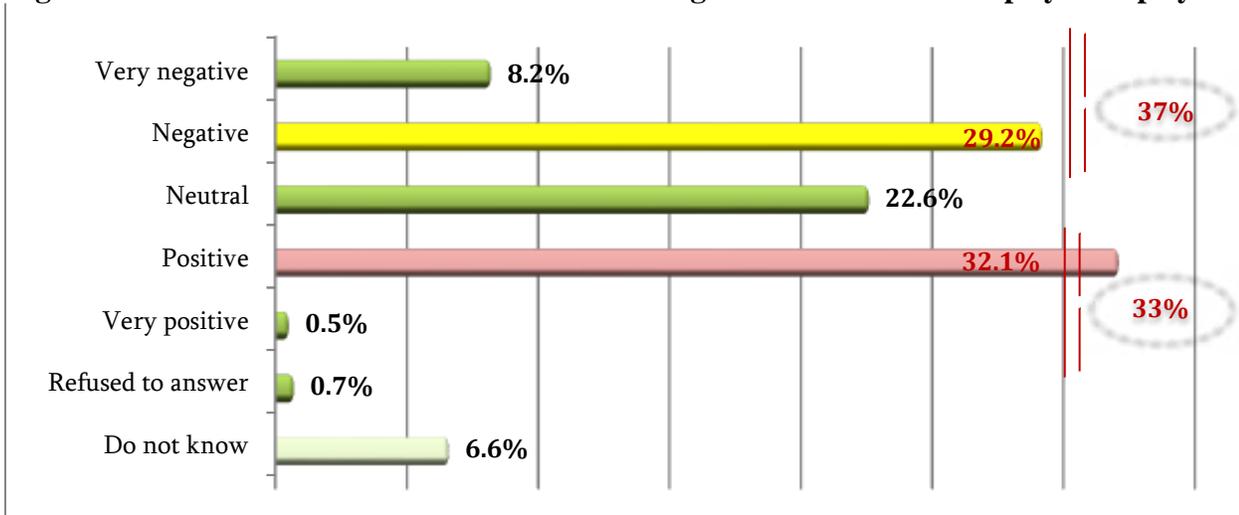
**Figure # 18 – mass dismissal and its possible impact on the company**



Sample size N=251

1/3 of the respondents assess negatively the increase of the state’s role in labor relations (37%). 33% assess increase of state’s involvement in labor relations positively, while every fourth is neuter to this possibility (23%) (see chart 29)

**Figure # 19 – Business leaders’ attitude to increasing the role of State in employee-employer relations**



Sample size N=251

**3.5. Dismissal**

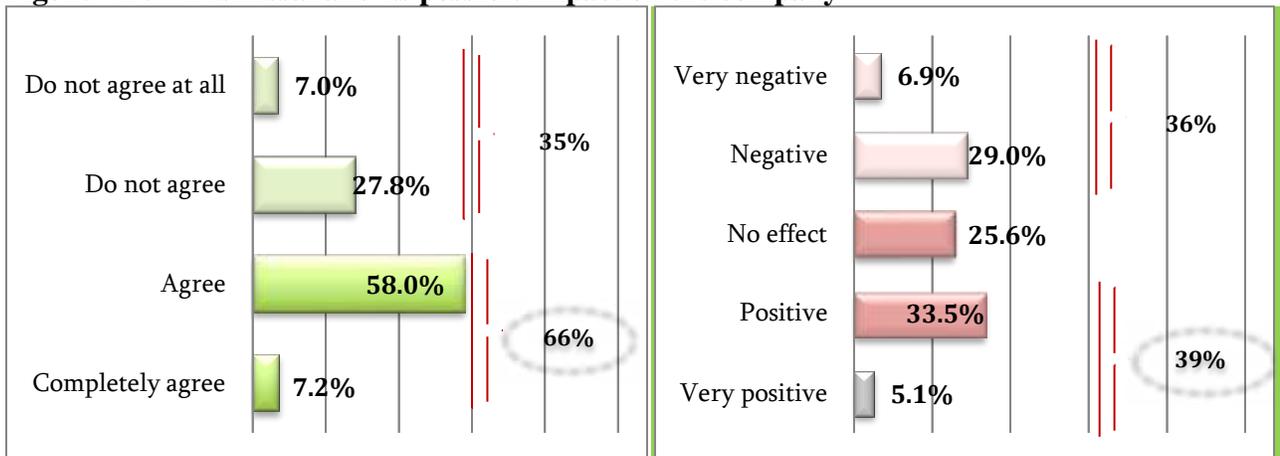
**3.5.1. Statement #13**

**Statement #13** - After termination of labour relations, the use of experience obtained during employment period by the employee for benefit of competitor employer is prohibited by the Law.

66% of respondents agree that after termination of labor relations, the use of experience obtained during employment period by the employee for benefit of competitor employer is not prohibited by the Law. However 1/3 of the interviewed businessmen said that they do not agree with this statement (35%) (see chart 20)

Even though the majority of respondents agree with this statement, their 62% do not think that in case of its introduction as mandatory rule, this change would have positive impact on their companies. However, their 39% still think that such change will have positive impact on business organizations. The survey demonstrated that 36% of the respondents have negative expectations and almost every fourth respondent (26%) does not expect any impact on his/her company from this statement (see chart #20).

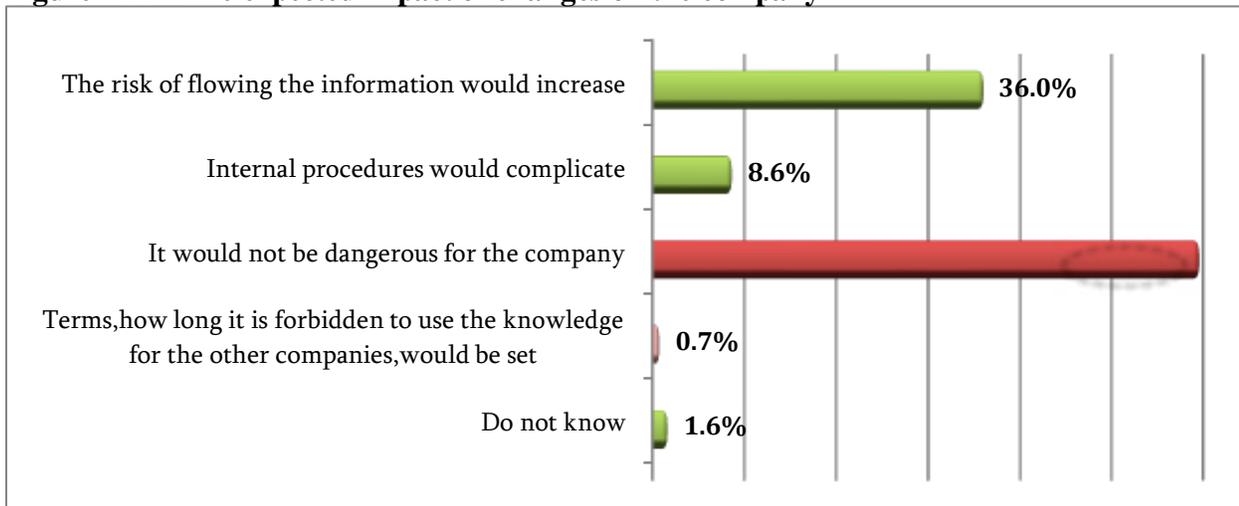
**Figure # 20 – Dismissal and its possible impact on the company**



Sample size **N=251**

60% of respondents do not think that the amendment related to \ dismissal is dangerous for companies. However, threat of damaging information is mentioned as problem the most frequently (36%). Complication of internal procedures was also mentioned among possible changes (9%) (see chart #21)

**Figure # 21 - The expected impact of changes on the company**

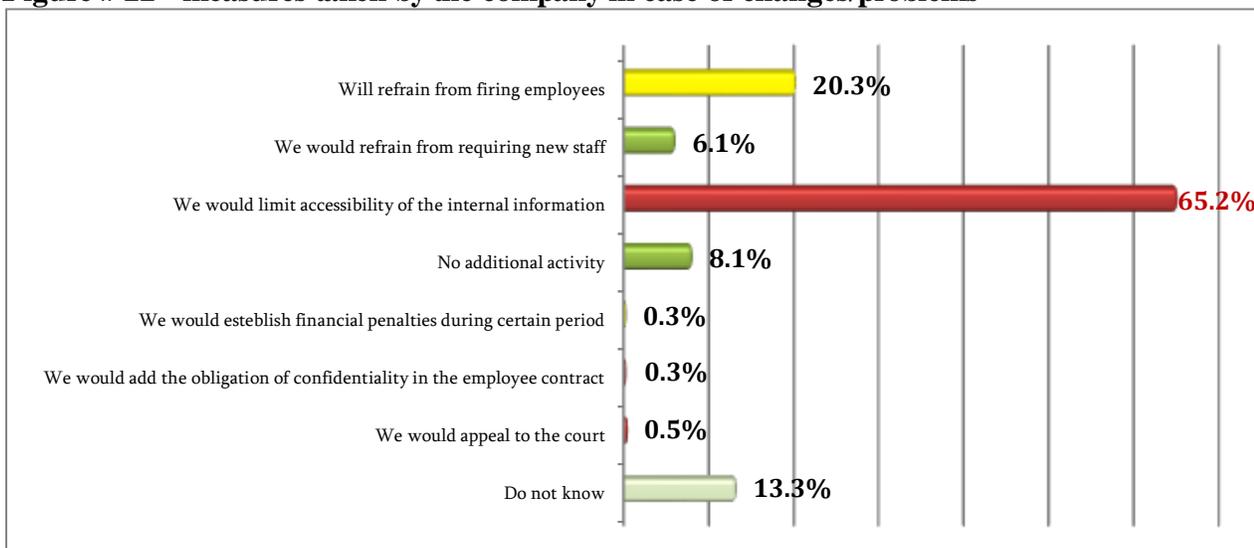


Sample size N=251

Note: total responses are more than 100 %, because more than one answer was permitted

Given question was asked just to the respondents, who in case of introduction of these regulations as mandatory rule expect certain changes in their companies. It is to be mentioned that 65% of interviewed businessmen state that they would restrict access to internal information. Every fifth thinks of imposing restriction on recruitment of new staff (20%). It is difficult for 13% of the respondents to predict any actions in given situation, while 8% state that they would do nothing for avoiding these problems (see chart # 22).

**Figure # 22 - measures taken by the company in case of changes/problems**



note: total responses are more than 100 %, because more than one answer was permitted

### 3.6. Collective dispute

#### Assessment of separate statements and their impact on the companies

This subchapter provides two statements on collective disputes. The respondents assess separate statements and their effect on their companies.

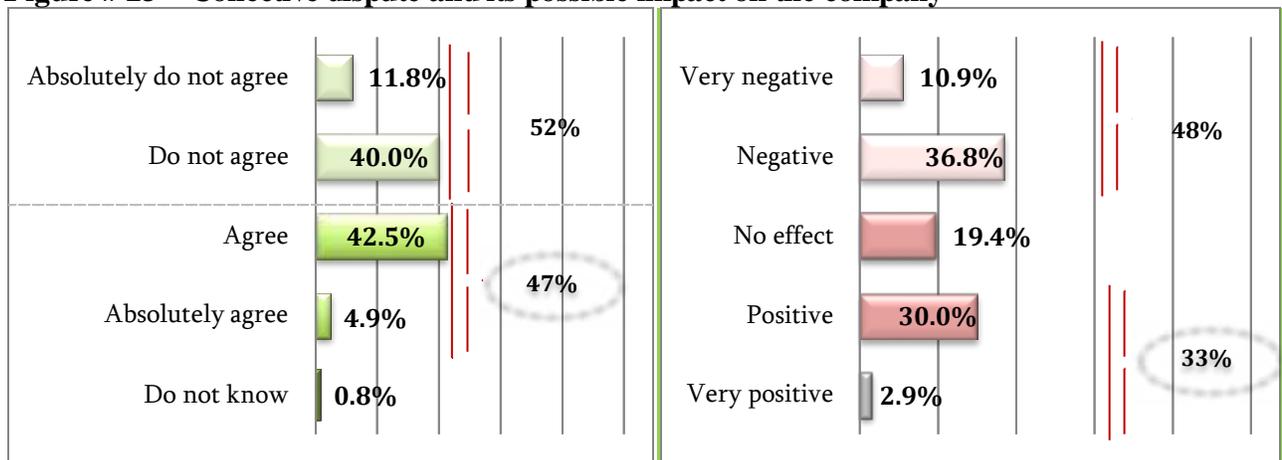
##### 3.6.1. Statement #14

**Statement #14** – In case of collective dispute one party has right to apply to the Ministry for its involvement as a mediator, for purpose of facilitating parties in reaching agreement.

52% of respondents do not agree with possibility of the ministry’s involvement in problem solving process, in the event of collective disputes. However, 47% of interviewed leaders agree with given statement (see chart #23)

In case of introduction of this statement as mandatory rule, 48% of the respondents think that this change would have negative effect on their companies. 33% of them think that such change would have positive effect on business organizations. The survey demonstrated that every fifth respondent does not expect any effect of this change (19%) (see chart #23)

**Figure # 23 – Collective dispute and its possible impact on the company**



Sample size N=251

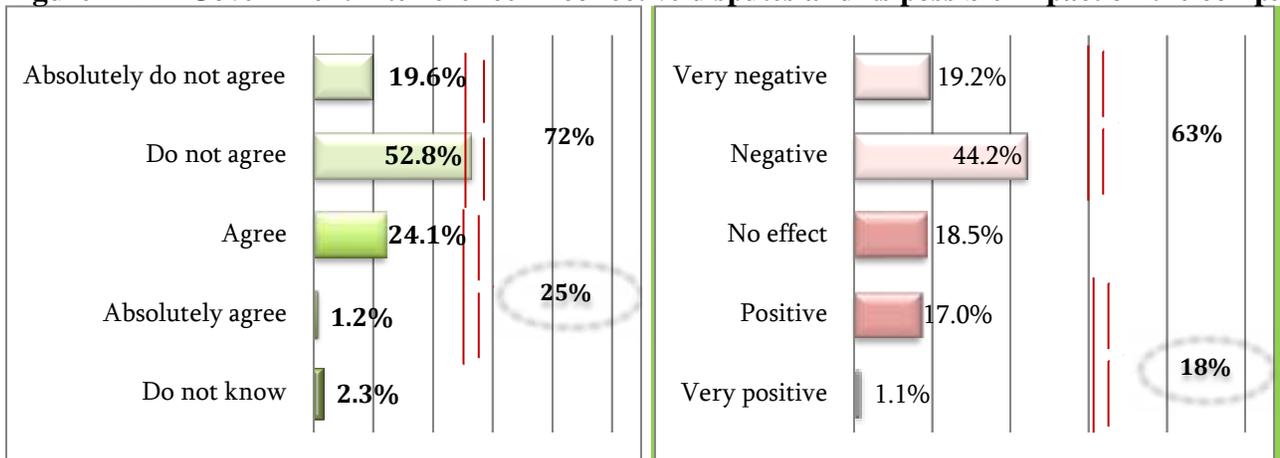
##### 3.6.2. Statement #15

**Statement #15** – The Ministry has right to get involved in collective dispute as mediator at own initiative, without the parties request, in order to support the parties in reaching agreement.

72% of respondents do not agree with the ministry’s involvement in the process of solving internal problems of the company. 25% of interviewed businessmen agree with given statement (see chart 24)

In the event of introduction of this regulation as mandatory rule, 63% of the respondents think that Government interference in collective disputes will have negative impact on their companies. Besides, 18% - think that the change would have positive effect on business organizations. The survey demonstrated that 19% of interviewed businessmen do not expect effect of this change on their companies (see chart #24)

**Figure # 24 – Government interference in collective disputes and its possible impact on the company**



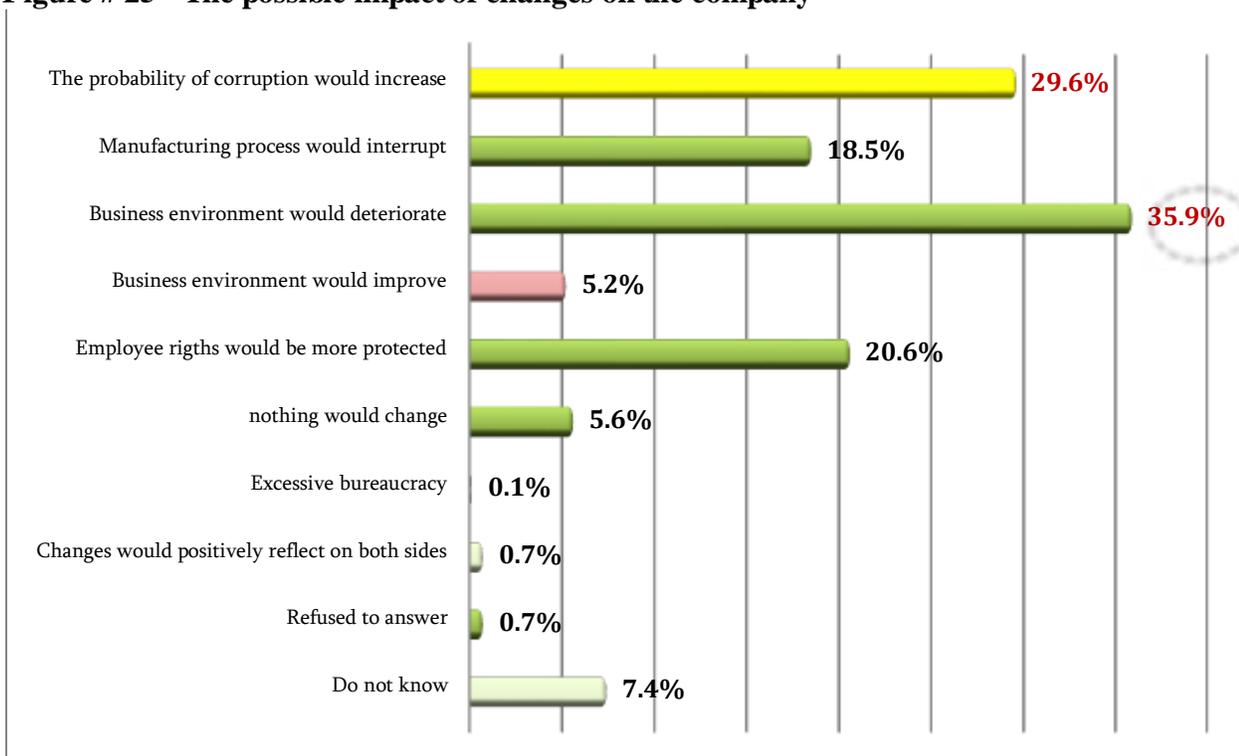
Sample size N=251

### 3.6.3. All the possible impact of changes in total provisions

Given subsection provides evaluation of possible effect of both regulations in case of their introduction as mandatory rule.

36% of respondents think that given change on collective disputes would worsen business environment. 30% states that the mentioned would increase possibility of corruption deal. Every fourth of interviewed businessman (21%) thinks that this would better protect the employees’ rights. Besides, almost 1/4 of respondents think that this would cause delay of the entrepreneurial process. It is to be mentioned that according to just 5% of the respondents such change would cause improvement of business environment (see chart 25).

**Figure # 25 - The possible impact of changes on the company**



Sample size N=251

Note: total responses are more than 100 %, because more than one answer was permitted

### 3.7. Strike/Lockout

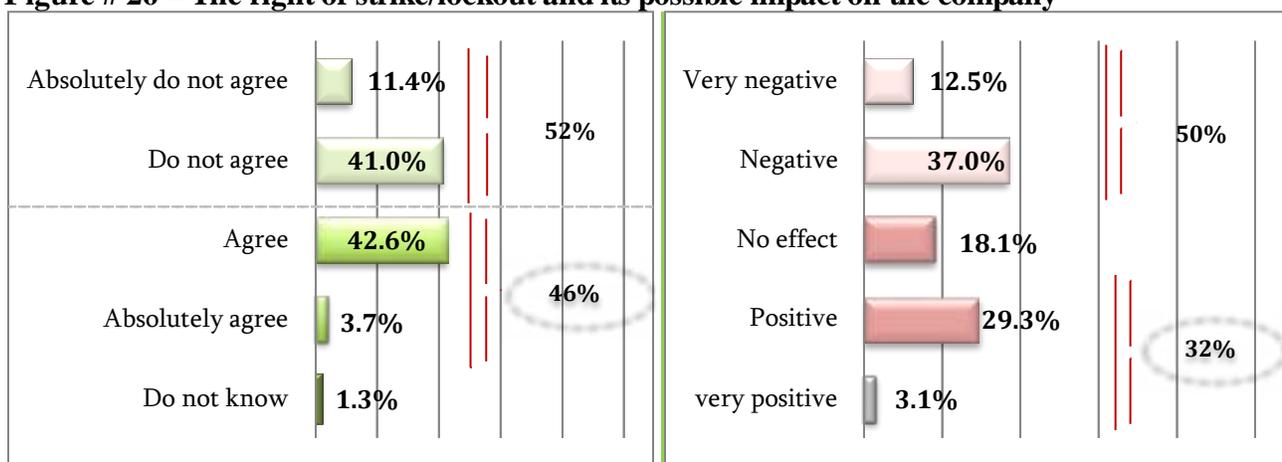
#### 3.7.1. Statement #16

**Statement #16** – The employees or employers have right for strike or lockout only after 21 days upon notifying the Ministry in written. Conciliation procedures will be conducted within these 21 days, in which the mediator nominated by the minister can also participate.

52% of respondents do not agree with requesting right for strike/lockout from the ministry. 46% of the interviewed business leaders state that they agree with given regulation (see chart #26).

In case of introduction of this regulation as mandatory rule, 50% of the respondents think that this change would have negative effect on their companies. Besides, 32% of the respondents think that such change would have positive effect on business organization. The survey demonstrated that every fifth respondent (18%) does not expect any effect of this change on his/her company (see chart #26).

**Figure # 26 – The right of strike/lockout and its possible impact on the company**



Sample size N=251

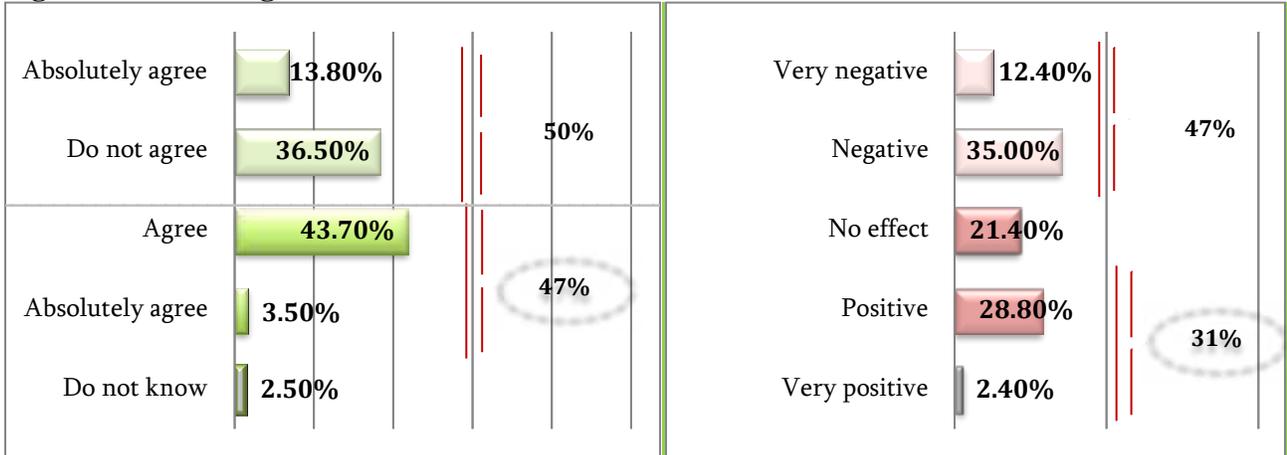
#### 3.7.2. Statement #17

**Statement #17** – Before starting strike or lockout the parties shall not later than 3 days prior to strike or lockout notify the Minister in written form regarding place and nature of strike or lockout

50% of respondents do not agree with requesting the right for strike/lockout form the ministry. However, 47% of interviewed leaders state that they agree with given statement, (see chart 27).

In case of introduction of this regulation as mandatory rule, 47% of the respondents think that this change would have negative impact on their companies. Besides 31% of interviewed businessmen think that such change would have positive effect on business organizations. The survey demonstrated that 21% of respondents do not expect any effect on this change on their companies (see chart # 27)

**Figure #27 – The right of strike/lockout**



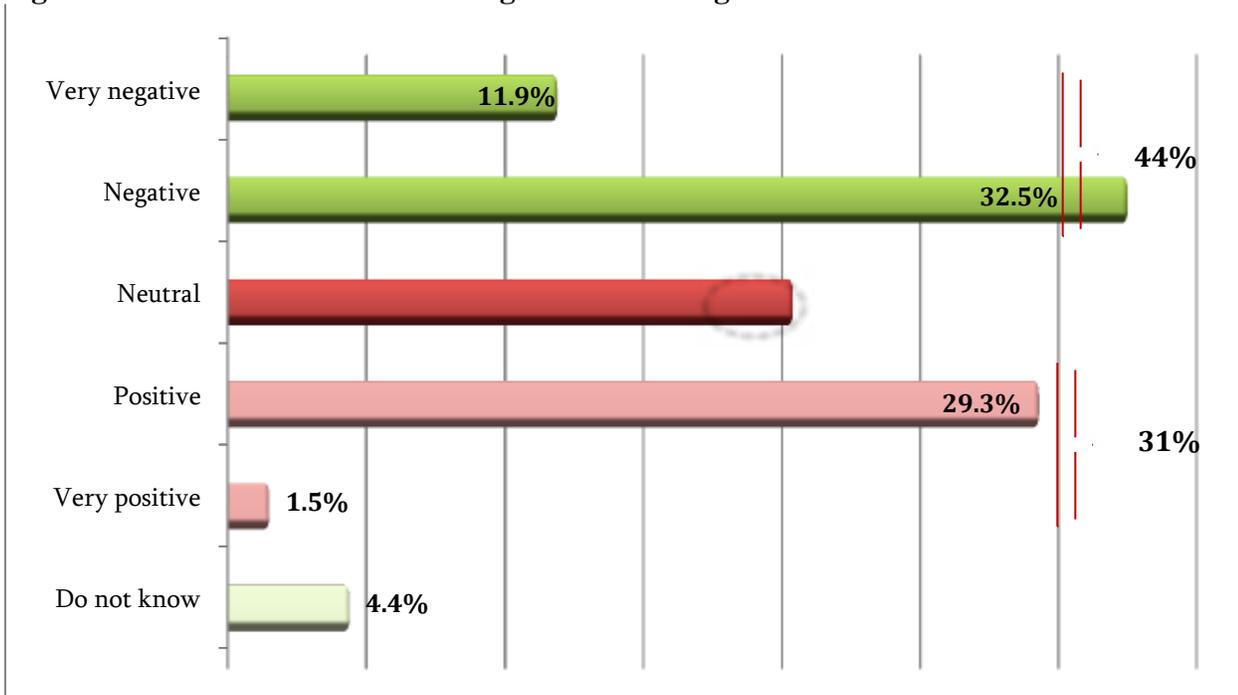
Sample size N=251

### 3.7.3. All the possible impact of changes in total provisions

Given subchapter provides evaluation of both statements on strike/lockout and their impact in case of being introduced as mandatory rule.

44% of respondents assesses negatively increase of the state’s role in labor relations. 31% of interviewed business leaders assess positively this fact, while every fifth respondent (20%) has neuter attitude towards the increase of state’s role in labor relations (see chart #28).

**Figure #28 – Position about increasing the role of the government in the same relations**



Sample size N=251

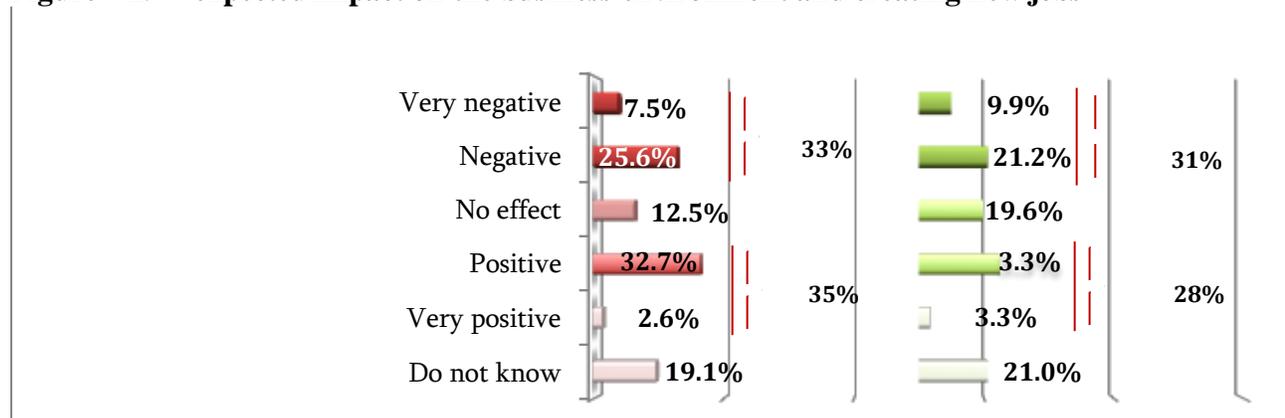
### 3.8. General assessment

The respondents were asked to evaluate effect of all regulations on business environment and on creation of new jobs, in case of their introduction as mandatory rule.

Opinion of the respondents was almost equally divided between negative and positive assessment of statements. 33% of the respondents think that initiated amendments to the labor code of Georgia is supposed to have negative impact on business environment. 35% think that this would have positive effect on business environment. It is difficult for 19% of the respondents to give any assessment (see chart #29)

31% of the respondents think that these changes would have negative impact on creation of new jobs, 28% think that this would have positive impact. It is difficult for 21% of respondents to make any assessments (see chart #29).

**Figure # 29 – expected impact on the business environment and creating new jobs**



Sample size N=251

## Appendix

### Research Methodology

Quantitative research was conducted using face to face interviews. 251 managers of business organizations were interviewed (See Table 1: Description of Research Methodology).

Note: Data were weighted according to enterprise size.

Table 1 –Description Research Methodology

Research method	Quantitative research
Research technique	Face to face interview
Target sample	Managers of small, medium and large-sized enterprises
Research area	Tbilisi
Sample size	250 enterprises
Sampling method	Quota sampling
Sampling error	6-7%
Average length of interview	20 minutes
Period of Research	April 2013

Overall, 1339 enterprises were contacted by telephone. 315 of them agreed to be interviewed. Face to face interview was conducted with 251 organizations. Enterprises were grouped in a following way: (See Table 2: Group of enterprises)

Table 2–Research Methodology

	Non-Financial	Financial
Small-sized enterprise	97	3
Medium-sized enterprise	72	3
Large-sized enterprise	73	3
Total	242	9

- Interviews were conducted mainly with Executive/Managing Directors (73%), relatively small number of respondents were Financial and Operational Directors (11%-11%). Presidents, Deputy Directors and HR Directors were also interviewed (4%).
- 83% and 13% of participating organizations are limited liability companies and individual entrepreneurs relatively. Only a small number of joint stock companies and general partnerships were interviewed (4%).
- More than half of enterprises interviewed by telephone are service providers (54%), every third of the respondent companies operates in commerce sector (29%), only a small number of manufacturing and construction companies participated in survey (7-8%). Interviews were conducted with financial organizations in compliance with quota sampling methodology.