Extended Country Report

Financial Participation of Employees in Lithuania

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Contents

1. Background

Participation of employees in decision-making in Lithuanian companies has its roots in trade union movement as well as in the practice of managing companies under Soviet rule. After Lithuania regained independence, employee ownership was used to facilitate privatization. A notable success was establishment of a number of employee-owned companies that were formerly state-owned enterprises during the first stage of privatization. However, no stronger tradition of employee participation has evolved. Current legal regulation of participation of employees - financial participation, as well as participation in decision-making - is not well developed and does not provide for stronger incentives. The solution of current employment and social problems by the Government, ruling parties as well as social partners is not associated with a higher level of participation of employees. Financial participation is viewed mainly as a way of employee motivation as initiated by managers and current owners of companies.

a) History

Participation of employees has a short history in Lithuania related first to co-operative movement and later to the privatization process, especially in the first half of the 90ies.

Though the start of co-operative activities dates back to the year 1869**,** when the first co-operative society was founded in Lithuania, the Law on Co-operative Societies and their Union was passed only in 1919. In 1920 the Lithuanian Union of Co-operative Societies was founded (LKBS), followed by the establishment of the Lithuanian Union of Agricultural Co-operative Societies 'Lietūkis' in 1923. Co-operative movement in agriculture was connected to collective use of equipment for farming and co-operatives for processing agricultural products. Both in the rural areas and in the cities there were also some crafts co-operatives. In 1940, the Union of Lithuanian Consumers' Co-operative Societies (LCCU) was established on the basis of 'Lietūkis', which played an important role in providing people with goods, increasing co-operative property and purchasing agricultural products from farmers.[1] During the period of socialism credit, agricultural and other types of co-operative societies disappeared. The only co-operative organization remaining was Lithuanian Consumers' Co-operative Societies Union (LCCU).

In the late 80ies many new co-operatives were formed as small service and production units. In 1990, new co-operatives made up around 4500 enterprises with about 5% of the total workforce. Law on Enterprises from 1990 did not include co-operatives as the official legal form of the enterprises, thus they were transformed into partnerships or closed joint-stock companies (see Mygind, 1995, p. 264).

In 1993, the Parliament passed the Law on co-operation (later co-operative societies), and legalised co-operative activities and ownership. In 1995, co-operative enterprises

[1] http://www.komunikacija.Litas/pranesimai/05%2003%2003%20(LIETOOPSAJUNGA).htm.

covering many of the new co-operatives were reorganised into partnerships or limited liability companies. The main functions of consumer co-operation union became coordination of actions between the members, providing them with services via co-operative enterprises and representing their interests in governmental institutions and international organisations, as well as increasing their economic capacity. In addition to general activities, such as trade, baking and canning industry, Lithuanian consumers' co-operatives were dealing with the purchase of agricultural products and second hand materials, processing of fruits and vegetables, catering, the production of national beverages, fur farming, construction, transport and other activities.

Economic reforms were planned well ahead of the full independence Lithuania gained in August 1991. Already in the spring of 1990 Lithuania was acting as an independent economic unit, and the period of early privatization was very short. The privatization process in Lithuania was very different from the development in Estonia and Latvia. The concept of privatization in Lithuania was agreed upon and implemented already in 1991 when strong egalitarian norms were still dominating the consciousness of leading politicians (see Čičinskas, 1994, p. 173). The first stage of privatization 1991-95 in Lithuania was much faster and more comprehensive, in fact one of the fastest in Eastern Europe. Vouchers and employee-ownership had a more important role, and direct sale and foreign investment had only a negligible role at this stage.

The power of workers at the first stage of transition was based on workers' councils and trade unions making demands about distribution of enterprise property and employee ownership. This tendency was reinforced by political processes because the elections to the Parliament (Seimas) strengthened the left-wing political forces. Unlike the other two Baltic countries, Lithuania did not have a large Russian-speaking minority. Therefore, the national question was not an important issue. Instead, economic policy has played an important role from the start, including possibilities to have real power over the decisions within enterprises, to remove old managers, connected with the Communist party, to put into effect the idea of social equality.

The early privatizations were conducted by transfer of shares of leased enterprises to employees according to the Resolution of the Supreme Council from 16 October 16 1990.[2] The amount transferred was the sum of the leasing fees paid, plus delayed wage payment invested in production plus part of social funds. Almost 60 enterprises were included in this program. According to the Temporary Law on private capital accumulation by employees in state-owned enterprises from 1990 (Valstybės žinios, 4 December 1990, No. 35-849, abolished on 17 November 2004), state-owned enterprises could sell part of their shares to employees. Employees could pay a part of the price in vouchers. 50-60% of state enterprises have used this method at the start of privatization until July 1991 when another program started (see Frydman et al., 1993, p. 263).

[2] According to the Resolution, employees in enterprises with leasing agreements got the opportunity to acquire shares equal to the sum of leasing fees plus deferred wages invested in production plus part of the social fund. 60 enterprises covering 100 million Roubles of property were transferred (see Frydman et al., 1993, p. 263).

The first stage of privatization started when the Law on the Initial Privatization of State-Owned Property (LIPSP) was passed on 28 February 1991 at a time, when the result of the fight for independence was far from clear. The privatization plan was one of the elements in the fight for independence in Lithuania. It included privatization of enterprises formally owned and controlled by the central authorities in Moscow. The cornerstone of the fast privatization in Lithuania was the voucher scheme. Vouchers and cash quotas were given only to residents and had limited transferability (to relatives, later they could be used in exchange for outstanding housing loans). Besides, people could invest their vouchers or cash in return for shares in private investment funds. A number of investment funds were established on private initiative in the autumn of 1991, and the Law was amended in December 1991 to legalize their functions.[3]

Under LIPSP, employees had the opportunity to buy a certain percentage of the shares in the first round of auctions at lower rates before most of the remaining shares were sold in public offerings in later rounds. The percentage of shares available for employees was increased from 10% in 1991 to 30% in 1992 and to 50% after the former Communist Party came into power in early 1993. Employees could use vouchers as well as cash to buy shares, usually at a price well below the market value. Moreover, because of only partial indexation of the price of the assets and the value of the vouchers, the advantage of employees increased over time (see Martinavicius, 1996, p. 280). This system made it possible for employees to obtain a considerable part of ownership even in large enterprises with high capital intensity. The 20% extra shares reserved for employees after 1993 initially did not have voting rights, but later it was made possible for the general meeting to convert these shares into ordinary voting shares. Hence, employee ownership was an important element in the privatization process, especially in large enterprises. Groups of managers usually had to make alliances with broader groups of employees if they wanted to take over the enterprise.[4]

ESOP Services International, which operated in the period of 1991-1997, played a significant role in facilitation of employee ownership in Lithuania (see Vilimavicius and Juknevicienе, 1996, pp. 323-348).

The second stage of privatization was based on a new Law on Privatization of State-Owned and Municipal Property from 4 July 1995. However, the previous law remained in force until 1 December 1997 in so far as privatization of state property included in

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[3] Investment funds were most active in 1992-93. Later most of the companies under their control experienced financial crisis or went bankrupt. The Law on investment companies was passed in July 1995 strengthening the regulation on auditing, reserves etc. and requiring the funds to get a license as a mutual fund or a holding company. Most of the investment funds did not fulfil the requirement at the deadline July 1997. By the end of 1998, there were only 22 investment companies left with a total of 228 million Litas worth of shares (Lithuanian Department of Statistics, publication 1999).

[4] Programs for sale of state owned enterprises to foreigners were introduced already in 1992, but until 1995 this program was used only in a limited number of cases. Little use was made of restitution of industrial enterprises to former owners.

privatization programmes prepared under the previous law were concerned. At this stage, residual shares and some of the very large companies including public utilities and infrastructure enterprises were to be sold. Use of vouchers was abolished, and only cash privatization was possible. The law vested significant powers in the so-called founders of enterprises, in most cases ministries or local municipalities.

The third Law on Privatization which is still effective was adopted on 11 April 1997. The State Property Fund, controlled by Privatization Committee, was established. The following methods were proposed for privatization of state-owned shares of companies: auction (small enterprises), public subscription of shares (small and medium), tender (medium and large), lease with option to buy and direct negotiations. Leasing of property was used to simplify privatization, when privatization was unsuccessful or in combination with other methods (takeover of control). Only the largest state controlled companies could be privatized by tender and direct negotiations. The second stage of privatization was connected with significant difficulties, many of the entities were sold after several rounds of privatization, a number of privatized companies had accumulated debt. The public had a negative attitude to privatization since a number of privatized companies were granted exclusive conditions for operations.

The third stage of privatization started in 2000, involving the remaining minor state shareholdings, real estate and property, and state-owned companies, which were excluded from privatization according to the Laws until the year 2000. These were shares of infrastructure companies and companies with dominant position in the market. One of the defined privatization methods or a combination of several of them could be used. In some cases the state retained a 'golden' share.

During the second and third stage of privatization all privileges of employees were abolished. Employees could acquire the shares of enterprises in which they were employed only if the enterprise was sold at auction or by public subscription of shares. Enterprises sold at auction were often taken over by insiders, mostly by managers.

During privatization in agriculture, former owners were entitled to restitution of land, woods and real estate. Collective farms were privatized according to the Law on Land Reform from 25 July 1991 and the Law on the Privatization of Property of Agricultural Enterprises from 20 July 1991, which provided employees with pre-emptive rights (Art. 10 (1) Law on Land Reform; Art. 3 (1); 4 (2) Law on the Privatization of Property of Agricultural Enterprises). In case of founding agricultural co-operatives employees could become co-owners and obtain participation rights (see Klimasaskas and Kasnauskiene, 1996, p. 331).

b) Social Partners

Currently, the social partners are represented by three organizations of trade unions and two organizations of employers. Trade unions are organized around the Lithuanian Trade Union Confederation (Lietuvos profesinių sąjungų konfederacija), Lithuanian Trade Union 'Solidarumas' (Lietuvos profesinė sąjunga 'Solidarumas') and Lithuanian

Labour Federation (Lietuvos darbo federacija). Lithuanian Trade Union Confederation (headed by A. Sysas), is the largest and strongest one with over 120 000 members, since May 2002 uniting at least 13 major existing trade unions from different industries and other sectors of economy (including public service, education, medical, agriculture sectors, chemical and metal industries, etc.). Lithuanian Trade Union 'Solidarumas' was reorganized from Labour Union and is headed by A. Balsienė, currently member of Labour party and MP. The third one, Lithuanian Labour Federation (headed by K. Kuzmickas) was re-established in 1991 (first created in 1919). Since 1996 LDF is a member of World Confederation of Labour (WCL) and from 2002 it belongs to European Trade Union Confederation (ETUC).

During the post-soviet period several views have evolved concerning trade unions as organizations and their activities. Under Soviet rule, union membership was obligatory and the trade unions functioned as an instrument of the Communist party to control workers and managers. They were especially active in large, prosperous companies and organizations, while in small and weak enterprises their activities were negligible.

Since the declaration of independence in 1991, trade unions rapidly ceased to exist in enterprises, where trade union leaders were weak, serving interests of management under Soviet rule.

However, trade unions were retained in enterprises, where their leaders (old or newly elected) strongly supported the ideas of Sajudis and Lithuanian independence. In some of such companies trade union leaders took over management of the enterprises and/or participated actively in the privatization (a successful example is Kaunas Confectionery Factory which was sold to a foreign investor in 1992 after early privatization). In many other cases the trade union leaders lost to outside investments groups, which took over the ownership and control of a large number of manufacturing enterprises.

The results of the survey on 405 Lithuanian companies done in 2000 (see Mygind, 2002) show that membership of unions was in general very low and had slightly fallen over time. The membership level was significantly higher for enterprises with remaining state ownership. But even in them the role of trade unions diminished. Employee-owned enterprises had quite low union membership. There were no unions in new enterprises.

In further development, negative attitudes have been diminishing and trade union membership has increased. Trade unions have started gaining power, as of 2004 their total number has reached 311 in different industries, including the public sector. Currently, the members support such major goals of the organizations as negotiations with employers and representatives of Government in signing collective work agreements, supervising implementation of the agreements' clauses, fighting for employee rights, against unsatisfactory labour relations and work conditions, against unfair wages and salaries. On the other hand, some of trade union members view the organizations mainly as mutual support funds the main function of which should be mutual support from regular cash contributions of all members of the organization. However, by the

end of 2005, trade unions, organized within several largest and best performing companies of Lithuania have started demanding distribution of a part of profits to employees. The idea was strongly opposed by the employers.

The general secretary of Lithuanian Trade Union Confederation Ms Janina Matuizienė has stated in an interview, that trade unions have a general aim of higher wages for employees and are relating it to the increase in company profitability. No particular actions concerning financial participation of employees are on the agenda of Confederation, but this issue can be supported if any industrial trade union makes a proposition.

The employers are organized within Lithuanian Confederation of Industrialists (Lietuvos pramonininkų asociacija), which is actively promoting interests of Lithuanian large business in Lithuanian Parliament (Seimas), as well as in Lithuanian Government, and Lithuanian Employers' Confederation (Lietuvos darbdavių asociacija). Major problems raised by employers' organizations concern high employment costs, including gradually increasing minimum wage level. These are viewed as major obstacles for competitiveness of Lithuanian businesses on international markets. According to the opinion of employers, in such a way Lithuanian companies are losing one of their key competitive advantages.

The question of financial participation of employees was discussed neither by Lithuanian Confederation of Industrialists nor by Lithuanian Employers' Confederation. M. Busila, currently acting as director of Department of Economics and Finance of Lithuanian Confederation of Industrialists, has declared in the interview[5] that the confederation has taken no official position on this issue, but supports initiatives of individual enterprises. He mentioned that different methods of motivation of employees related to participation are used in some of the enterprises, but usually these are applied to managers. In his opinion, such practices are spread by the academic community and by branches of foreign firms.

All three - trade union organizations, employers' organizations and government representatives - participate in the tripartite Council. There was no public debate on financial participation of employees in the Council. European Companies can be established after the respective law was adopted by the Lithuanian parliament on 29 April 2004, but no discussions on employee participation accompanied the adoption of the law.

c) Current National Policy

The programmes of coalition parties which came into power in 2004 including Social Democrats (Lietuvos socialdemokratų partija LSDP), New Union (Social Liberals) (Naujoji sajunga (Social liberalų partija)) and the newly established Labour party (Darbo partija DP) are aimed at increasing social guarantees, reducing poverty and unemployment.

[5] Interviews with Mr. M. Busila and Ms J. Matuizienė were conducted by Ms Jone Sakalyte in March 2005.

According to the Minister of Social Security and Labour, that time member of New Union (Social Liberals) Vilija Blinkevičiūtė, the policy of Lithuanian government is to reduce unemployment, provide legal and financial state guarantees to employees of bankrupt companies, increase current wages and pension payments and to reform the pension system. It must be seen against a background of increasing migration of working force to other EU states, including not only highly qualified professionals but also skilled workers in transportation, construction and retail sectors.

Participation of employees has not been on the political agenda of the Parliament and the Government. There has been no discussion within the parties and in the Government so far concerning employee financial participation as well as participation in decision-making.

2. Types of Schemes and their Legal Foundations

Economic research shows that Lithuanian enterprises use different financial participation schemes (employee shares, stock options and profit-sharing) in spite of lack of legal regulation in this field. Current legal regulation contains no special provisions and does not provide companies with incentives.

a) Employee Share Ownership and its Legal Foundations

One form of employee participation in Lithuania is employee share ownership, which has been obtained, in most cases, during privatization.

(1) Privatization Issues

Currently, privatization of the majority of enterprises in Lithuania is completed. However, privatization is still possible and the respective legal regulations are still effective. The most important regulations are the Law on Privatization of State Property and Property of Municipalities from 11 April 1997 as amended (hereinafter referred to as PL), Law on Securities Market from 17 December 2001 as amended and Law on the State Property Fund from 11 April 1997 as amended. The PL allows for the following methods of privatization of state property: public share subscription (for large and medium scale enterprises), auctions (for small enterprises or spin-offs), tenders, direct negotiations and leasing with the option to buy (Art. 13 ff PL).

Employee ownership in Lithuania could have emerged mainly before 1995. The current PL does not contain any significant preferential rights for employees in the privatization process. However, if shares are privatized by public tender, the employees can be offered up to 5% of the shares owned by the state at par value (Art. 16 (3) PL). This provision is not applicable to enterprises under state control in the sense of Art. 18 PL

or to enterprises in which employees have already acquired shares of their enterprises under other laws (Art. 16 (3) PL). If shares are offered at a public tender or by direct negotiations, the final payment can be postponed for 5 years for employees (Art. 20 (3) PL).

After the initial stage of privatization (1991-1995) was completed, the pre-emptive right of employees to buy assets or shares of the enterprises at nominal value (usually lower than the market value) was abolished. Employees, which have obtained company shares during initial (first) stage of privatization, have voting rights at the general meeting, right to call the general meeting, etc., and thus have a possibility to participate in the decision-making process on the same grounds as other company shareholders.

(2) Company and Securities Law

Although ownership of shares acquired by employees during privatization of enterprises has decreased dramatically, some employees still hold shares and thus have the rights attached to these securities. The most important legal regulations of company and securities law are the Law on Companies from 13 July 2000 as amended (hereinafter referred to as CL), the Law on Partnerships from 6 November 2003 as amended, Civil Code from 18 July 2000 as amended (hereinafter referred to as CC), the Law on Sole Proprietorship from 6 November 2003 as amended, the Law on State and Municipal Enterprises from 21 December 1994 as amended, the Law on Agricultural Companies from 16 April 1991 as amended and the Law on Securities' Market from 16 January 1996 in the edition from 17 December 2001 as amended (hereinafter referred as LSM).

The quantitative distribution of business forms is relevant in this context.

Table 1. Companies by business forms

Company	2003			2004		
	Registered	Operating	% of registered	Registered	Operating	% of registered
State company	271	144	53	201	134	67
Municipal comp.	139	81	58	111	74	67
Limited partnership	470	265	56	431	197	46
Private limited liability comp.[6]	46,888	21,146	45	47,902	24,833	52

[6] The private limited liability company means '*uždaroji akcinė bendrovė*' or 'UAB'.

Company	2003			2004		
	Regis-tered	Operat-ing	% of regis-tered	Regis-tered	Operat-ing	% of regis-tered
Joint-stock comp.[7]	1,152	670	58	931	578	62
Sole proprietor	83,017	31,860	38	76,090	27,898	37
Special purpose joint-stock comp.	21	16	76	1	-	-
Special purpose limited liability-comp.	167	158	95	20	19	95
Branch of for-eign comp. since 2000-7-19	39	-	-	61	25	41
Credit union	54	42	78	59	54	92
Public enterprise	2,486	1,190	48	2,894	1,451	50
Agricultural company	2,134	523	25	1,916	478	25
Association	574	256	45	663	252	38
Non-profit comp.	103	10	50	95	9	42

Source: Lithuanian Department of Statistics.

Note: The table excludes budget organizations, political, religious, mutual, public organizations and associations, trade unions. Data on co-operatives and co-operative unions are given in a separate table.

(a) Corporations

According to the table, most popular business forms are corporations topped only by sole proprietorship. In corporations, employees have the same rights as other shareholders and, additionally, rights in connection with employee stock issued in the course of capital increase. According to Art. 15 (1.4) CL, shareholders have the pre-emptive right in acquiring shares or convertible debentures issued by the company, except in cases when the general meeting decides to withdraw the pre-emptive right in acquiring

[7] Joint-stock company means the public limited liability company ('*akcinė bendrovė*' or 'AB').

the company's newly issued shares or convertible debentures for all the shareholders (Art. 20 (1.12) CL).

Since most employees are minority shareholders, provisions on protection of minority shareholders are relevant. As a rule, the right to convene the general meeting shall be vested in the supervisory board, the management board or the manager of the company, and the shareholders who have at least 1/10 of all votes, unless the articles of association provide for a smaller number of votes (Art. 23 (1) CL). The agenda of the general meeting may be supplemented by the supervisory board, the management board or the manager or shareholders who hold shares corresponding to not less than 1/10 of all votes attached to them, unless the articles of association provide for a smaller number (Art. 25 (3.1) CL).

A decision of the general meeting shall be considered valid if more votes of the shareholders have been cast for it than against it, unless CL or the articles of the company provide for a larger majority (Art. 27 (8) CL). Decisions taken by the general meeting on core issues require a qualified majority vote of not less than 2/3 of all votes (Art. 28 (1) CL). The decision to withdraw the pre-emption right in acquiring the company's newly issued shares or convertible debentures of a specific issue require a qualified majority vote of not less than 3/4 of all votes conferred by the shares of the shareholders present at the general meeting and entitled to decide on the issue (Art. 28 (2) CL). The articles of association may provide for larger qualified majorities (Art. 28 (3) CL).

If a person, acting independently or in concert with other persons, acquires more than 40% of votes at the general meeting, he is obliged either to transfer shares exceeding this threshold or to announce a tender offer to buy up the remaining voting shares of the issuer and the securities confirming the right to acquire voting shares within 30 days (obligation to announce an obligatory tender offer) (Art. 19 (1) LSM). The price of a mandatory tender offer may not be lower than the highest price of the shares which the offeror acquired over one year before exceeding the threshold (Art. 19 (2.1) LSM. A person acting independently or in concert with other persons shall be devoid of all the votes at the general meeting of shareholders from the moment of exceeding the 40 per cent threshold (Art. 19 (3) LSM). The Securities Commission shall have the right to determine general cases of exceptions when announcement of a mandatory tender offer is not compulsory if the requirement to announce a tender offer would be unfair, inexpedient or contradictory to the market interests (Art. 19 (4) LSM).

Along with the obligation to announce an obligatory tender offer (Art. 19 LSM), new provisions of the LSM from 17 December 2001 (effective since 1 April 2002) provide for a mandatory sale and purchase of shares: The shareholder of an issuer whose shares have been admitted to the official or the current list of a stock exchange registered in Lithuania, acting independently or in concert with other persons and having acquired shares representing not less than 95% of the total votes at the general meeting (referred to as majority shareholder) shall have the right to demand that all the remaining shareholders of the issuer sell the voting shares owned by them, and the shareholders shall be obligated to sell these shares ('squeeze-out') (Art. 19^1 (1) LSM). Minority

shareholders have a corresponding sell-out right: Any shareholder of the issuer whose shares are admitted to the official or the current trading list of a stock exchange registered in Lithuania shall have the right to demand that the majority shareholder purchases the voting shares owned by him and the majority shareholder is obliged to buy up these shares (Art. 19[1] (15) LSM).

In the course of capital increase, corporations (joint-stock companies as well as limited liability companies) can issue employee shares after all shares subscribed at the time of incorporation have been paid for (Art. 43 CL). CL does not provide for a maximum percentage of the capital employee shares may constitute. Employee shares are to be distributed among employees wishing to purchase them, with the exception of the management (Art. 43 (2) CL). A restriction period must be determined within which employee shares can be sold only to other employees which is not longer than three years (Art. 43 (3) CL). Within this period employee shares are not only shares of limited tradability, but also non-voting shares before the restriction period expires (Art. 43 (3.3) CL), although employee shares are ordinary shares (Art. 43 (1.1) CL). Art. 43 (5) CL stipulates that an employee must pay for subscribed employee shares before the expiry of the restriction period for the transfer of shares. The first payment should be made in cash within a short period; further instalments can be deducted from the salary upon application of the employee. The corporation is not allowed to put pressure on employees forcing them to purchase shares or to pay for shares by deduction from the salary. (Art. 43 (4) CL). After the expiry of the restriction period for the transfer of shares employee shares become ordinary shares and can be sold to third parties who are not employees of the company (Art. 43 (3) CL).

Employees generally have the same rights as other shareholders. However, only employees are entitled to employee shares. Capital increase by issuing employee shares makes it possible for the corporation to increase capital and, at the same time, to retain control within the restriction period. It might be also advantageous for employees to purchase employee shares, especially in prosperous companies whose shares could be sold with profit after the expiry of the restriction period. Employees who obtained company shares during privatization have limited influence on decision-making since they are minority shareholders in most cases. Employees who obtained employee stock in the course of capital increase have no influence on decision-making since employee shares are non-voting shares during the restriction period.

According to the Labour Code (in force since January 2003, hereinafter referred to as LC), employees may be represented and protected by trade unions or by work councils (Art. 19 (1) LC).[8] The work councils should be an institution formed from representatives of all employees. A trade union, however, can be established by a small part of all

[8] Where an enterprise, agency or organisation has no functioning trade union and if the staff meeting has not transferred the function of employee representation and protection to the trade union of the appropriate sector of economic activity, the employees shall be represented by the work council elected by secret ballot at the general meeting of the staff (Art. 19 (1); 21 (2) LC).

employees in an enterprise. Nevertheless, the priority to negotiate with the employer has been vested in trade unions (see Art. 19 (1); 21 (2); 60 (4) LC). The trade unions are active only in a small number of private enterprises, but the special law on work councils (Art. 21 (1) LC) has not been adopted yet, so that no work councils could be established in practice. As a result, the conditions favour the creation of trade unions and expansion of their activities.

As far as employees' representation in European Companies (Law on European Companies from 29 April 2004, in force since 8 October 2004) is concerned, on 12 May 2005 the Seimas implemented the Council Directive 2001/86/EC of 8 October 2001 supplementing the Statute for a European Company with regard to the involvement of employees by adopting the Law on the Involvement of Employees in Decision-Making in European Companies of 28 May 2005. EU Directive 94/45/EC on the establishment of a European Works Council (EWC) or a procedure in Community-scale undertakings and Community-scale groups of undertakings for the purposes of informing and consulting employees was implemented in Lithuania by the Law on European Works Councils from 19 February 2004 regulating the election of members of special negotiating bodies and European works councils.

(b) Co-operatives

The legal status of co-operative societies is regulated by the Law on Co-operative Societies from 28 May 2002 as amended (hereinafter referred to as LCS) and the Civil Code from 18 July 2000 as amended (hereinafter referred to as CC). A co-operative society (co-operative) (*'kooperatinė bendrovė'* or *'kooperatyvas'*) is defined as an enterprise established by at least five legal entities and/or natural persons for the purpose of meeting economic, social or cultural needs of its members. The members make contributions to the capital, share risks and profits according to the turnover of members' goods or services within the co-operative society and take an active part in the management of the co-operative (Art. 2 (2) LCS).

A co-operative society is a legal entity with limited liability (Art. 3 (1) LCS). The co-operative society is liable for its obligations only to the extent of its assets, whereas a co-operative's member shall be liable for the obligations of the co-operative society to the extent of member's contribution subject to payment for member's share (Art. 3 (2) LCS).

Besides the part of profit paid out to the members in proportion to the volume of turnover according to the procedure established by the articles of association, up to 10% of the profit shall be paid out as dividends (Art. 14 (4) LCS). Theoretically, a co-operative is an appropriate business form for employee-owned enterprises. An advantage of this business form is that (atypically for co-operative societies) liability can be limited and profit can be distributed. Legislation does not even provide for a minimum share capital of a co-operative society. Payments to the capital reserve are mandatory for all co-operative societies if the reserve capital makes up at least 1/10 of the own

funds value, and the amount of mandatory deductions into the reserve fund makes up at least 5 per cent of the net profit (Art. 12 (3) LCS).

Inadvantageous may be the new provision that – besides the part of profit paid out to the members in proportion to the volume of turnover according to the procedure established by the articles of association - only up to 10% of the dividends shall be appropriated for the payment of dividends (Art. 14 (4) LCS) which seems too little.

Each member of a co-operative society has one vote in the general meeting (members' meeting, in co-operatives with more than 100 members - meeting of representatives of the co-operative society members) regardless of the amount of member's share (Art. 11 (1.2) LCS). Regulation on delimitation of power between the general meeting and the board or (in co-operatives with not more than 50 members) head of the administration of a co-operative society (Art. 15-18 LCS) is sufficiently detailed.

(c) Partnerships

In spite of the possibility to establish partnerships, especially after Law on Partnerships was adopted on 6 November 2003, this business form is not widespread. In particular, attorneys at law and notaries prefer this form. By other businesses, incorporation is preferred since partnership is advantageous first of all for the mentioned free-lance professionals. The basic provisions on partnerships are Art. 6.969-6.982 CC and the Law on Partnerships from 6 November 2003, in effect as of 1 January 2004 (hereinafter referred to as PL). PL, in contrast, does not provide for a definition of partnership per se but of general partnership (*'tikroji ūkinė bendrija'*/acronym: TŪB, hereinafter referred to as GP) and limited partnership (*'komanditinė ūkinė bendrija'*/acronym: KŪB, hereinafter referred to as LP) – a differentiation completely lacking in the provisions of Art. 6.969 ff CC. Partnership in the sense of PL and discussed here is an enterprise, what means that the activities of the partnership are aimed at producing profit, while an agreement on joint activities (partnership) in accordance with Art. 6.969 CC is not conclusively related to the seeking of profit, but can also serve as the basis for establishment of partnerships. Thus, the provisions of Art. 6.969-6.982 CC can be applied only as far as PL does not contain special rules.

The general partnership is an enterprise all of whose (minimum two, maximum 20) members are general partners, while the limited partnership is an enterprise whose (minimum 3, maximum 20) members are general partners (at least two) and limited partners (at least one) (Art. 2 (1), (2); Art. 7 (4) PL). The partnership is a private legal entity of unlimited civil liability which acquires civil rights, assumes civil obligations and implements the above through the general partners (Art. 2 (4), (5) PL).

The founders of the partnership (persons who have concluded the partnership agreement, general partners) may be both natural persons and legal entities (Art. 3 (2) PL). The number of founders (as the number of partnership members) is restricted to 20 (Art. 3 (3) PL). The following persons cannot be founders or general partners of the partnership: general partners of other partnerships, owners of individual enterprises,

the state, municipalities, state-owned enterprises, municipal enterprises, budgetary institutions, partnerships, individual enterprises, European Economic Interest Groupings (Art. 3 (4); 7 (5), (6) PL). Both general partner and limited partner have to make a contribution (or – in the case of a general partner - to commit himself to make a contribution) into the partnership in the manner prescribed by PL and the partnership agreement or limited partner's agreement they concluded (Art. 7 (1), (2) PL). The partners can contribute not only money, but also other property units, knowledge, skills, reputation and business relations (Art. 6.970 (1) CC; Art. 10 (2) PL).

If the assets of the partnership prove insufficient to satisfy its obligations, the general partners of the partnership shall be jointly and severally liable for the partnership obligations with all their property. In contrast to PL, CC provides for a differentiation of liability for joint obligations in the partnership in dependence of the sphere of activities (commercial – not commercial): If the partnership agreement concerns commercial activities, all partners have joint and several liability for joint obligations (Art. 6.975 (2), (3) CC). If the partnership agreement concerns other than commercial activities, each partner is liable for joint contractual obligations with all his property in proportion to his part of such obligations; under joint non-contractual obligations the partners shall be jointly and severally liable (Art. 6.975 (1), (2) CC).

At the end of the financial year the profits shall be distributed on the decision (by common consent) of all general partners (Art. 13 (1), 8 (2.1) PL). The share of profits allocated to each member of the partnership must be paid out within three months from the day of the decision on the distribution of profits (Art. 13 (4) PL). The share of profits of the general partnership due to the general partners shall be distributed to each general partner in proportion to the amount of his contribution, unless otherwise established in the partnership agreement (Art. 13 (2), 8 (2.6) PL). The agreement to exclude any of the partners from the distribution of profits shall be null and void (Art. 6.976 (2) CC).

Advantageous for employees seems to be the concept of limited partnership since it offers limited liability and distribution of profit (even before general partners have to receive their share of profit). This advantage, however, is curtailed by the complete exclusion of limited partners from decision-making. Among the members of a partnership, only the general partner enjoys the right to take part in the settling of partnership affairs and in the decision-making (Art. 8 (2.1) PL). The general partner is also entitled to act on behalf of the partnership unless otherwise established in the partnership agreement, to propose amendments to the partnership agreement, to be granted access to the documents of the partnership (Art. 8 (2.2-2.4) PL). In contrast to that, as for the limited partner, PL does not provide for any right to take part in the management of the partnership or in decision-making. However, the limited partner can be granted such a right by other laws or by the limited partner's agreement (see Art. 9 (1.7) PL). Each partner shall be entitled to have access to the documents concerning the management of the joint affairs, notwithstanding whether or not he has the right to manage the joint affairs (Art. 6.973 CC). Consequently, the limited partner is entitled to be granted access to the partnership agreement and amendments thereto, to the docu-

ments of the limited partnership's general affairs management and its financial statements, to all information that must be presented under CC to the creditors of the limited partnership (Art. 9 (1.4-1.6) PL).

b) Profit-Sharing

There are no specific regulations concerning profit-sharing with employees. Since companies have to pay income taxes on dividends, this is viewed as an expensive way of profit distribution. Priority is given to share buy-back schemes. Employee monetary incentive schemes used in companies include payments of premiums, bonuses, in some cases related to company turnover and profits. Bonuses have tax advantages, since they are not double taxed as dividends are (firstly at corporate profit tax rate, secondly at income tax rate), but taxed only by income tax for individuals (33%[9]).

c) Taxation Issues

As far as the taxation of salary is concerned, the company pays the social security tax amounting to 31% of the employee's gross wage (1% for labour accidents' insurance, 3% for medical insurance, 22.5% for pension insurance; 3% for sickness and maternity or paternity insurance; and 1.5% for unemployment insurance), and employees pay the personal income tax amounting to 33% (Art. 2 (14), (16.1); Art. 6 (3) Law on Personal Income Tax from 2 July 2002 as amended) and the social security tax amounting to 3% as a withholding tax (2.5% for pension insurance and 0.5% for sickness and maternity or paternity insurance) payable to the State Social Security Fund.

Individuals carrying out individual activities can choose if they pay 33% income tax and are allowed to make deductions or 15% income tax without the possibility of deductions (Art. 6 (2.8) Law on Personal Income Tax).

On dividends, the company pays profit tax amounting to 15% (Art. 2 (15), 5 (1.3) Law on Profit Tax), small enterprises 13% (Art. 2 (15), 5 (2) Law on Profit Tax), and employees generally pay personal income tax amounting to 15% (Art. 2 (14), 12, 16 (1), 6 (2.1) Law on Personal Income Tax). Income from the sale of securities by individuals is taxed only in exceptional cases. Profit from sale of company shares is not taxed if the owner has acquired them before 1 January 1999, and if he has acquired them after 1 January 1999 and has owned less than 10% of the shares for more than 3 years preceding the sale (see Art. 17 (1.22), (1.23) Law on Personal Income Tax).

After the start of pension reform (Law on Pension Funds from 3 June 1999 No. VIII-1212 (Žin., 1999, No. 55-1765), amended on 4 July 2003, change of the title to Law on Supplementary Voluntary Pension Accumulation, Žin., 2003, No.75-3473) a possibility of accumulation of company funds for the employee pension plans emerged. Since 2005 private pension funds, majority of which established by commercial banks,

[9] On 1 July 2006 income tax was reduced to 27% and a further reduction to 24% is expected in 2008.

started operations and active marketing of accumulation of company funds in favour of employees. Companies are provided with tax incentives on payments to private pension funds, for the benefit of employees (these contributions are deducted from revenue in accordance with Art. 26 (1) Law on Profit Tax). The same tax incentives are provided for companies' life insurance payments for the benefit of employees to private insurance companies (when life insurance period exceeds 10 years) (Art. 26 (2) Law on Profit Tax). The two latter schemes are marketed as aimed at increase of employee motivation.

3. Incidence Now and Over Time

Employee ownership and profit-sharing emerged during privatization and partly in new enterprises. Since data concerning employee participation is scarce, current situation can be characterized by indirect indicators and research regarding privatization processes.

a) Small Privatization

Employees of small companies enjoyed no preferential treatment as compared to employees of large companies. Employees of middle-sized and large enterprises acquired shares of privatized entities often on preferential terms, but small enterprises were mostly privatized by the management. The LIPSP program did not formally include special preferences for employees in small privatization, because small enterprises were mostly sold at public auctions, where vouchers and cash quotas could be used. However, because of inside information and access to resources for purchase in the form of vouchers, insiders also had a relatively strong position in the privatization of small firms. There were special conditions to secure the continuation of the current activity for at least three years, and lay-offs of employees were restricted to maximum 30% in the same period. Although small privatization included around half of the 6,000 enterprises to be privatized in the LIPSP program, the small enterprises only covered a small percentage of the total assets and the total number of employees. By August 1992, 1,300 small enterprises were privatized, by October 1994 the number was 2,498, and in July 1995 it was 2,727 according to the statistics of the Ministry of Economics.

b) Large Privatization

During the first stage of privatization 5,714 objects were privatized, including 2,928 large and medium companies by public subscription of shares, and 12 companies by tender. According to the State Property Fund, 1991-1995, 81% of state-owned assets put out for privatization were privatized. As a result of fast privatization, already in

1996 private sector contributed 68% to the GDP. At the first stage of privatization, a wide layer of owners (estimated at approximately 1 million. people in 1995) emerged who owned shares of companies as employees, individual outside shareholders or through investment funds. Different starting positions of separate groups of participants of privatization caused specific ownership structure after the initial privatization. Employees of privatized companies (2/3 of them managers) acquired 7.4% of statutory capital of all privatized companies on preferential terms. For deposit of vouchers, over 2.6 million investment accounts were opened in banks, which accumulated vouchers with the value over 10.2 billion Litas.

At the end of 1992, employees received a relatively small part of total privatized equity and 67% of enterprises had no employee ownership. This figure does not include the earliest insider-takeovers of shares, which were formally outside the LIPSP-program. In just two years there was an astonishing change. By 1994, fewer than 5% of the privatized firms in the LIPSP program had no employee ownership and the percentage of enterprises where the majority of privatized assets were taken over by employees increased from 3% in 1991-1992, to 65% in 1993, and to 92% in 1994-1995 according to the statistics of the Privatization Department at the Ministry of Economics. This development reflects the massive increase in support for employee take-overs. However, in most of the enterprises the state still kept some assets (48% of the statutory capital of all privatized entities).

Table 2. Employee-owned share of privatized capital – LIPSP, million Litas

% owned by insiders		0%		1-10%		11-30%		31-50%		51-100%		total	
Sept. 1 1991	firms	510	100	0	0	0	0	0	0	0	0	510	100
April 7 1992	capital	338	100	0	0	0	0	0	0	0	0	338	100
April 7 1992	firms	410	43	47	5	172	18	240	25	76	8	945	100
Febr. 1 1993	capital	433	46	96	10	191	20	162	17	60	6	942	100
Febr. 1 1993	firms	29	2	39	3	66	5	141	10	1,190	81	1,465	100
July. 1 1995	capital	13	1	83	6	174	13	230	17	851	63	1,351	100
Sept. 1 1991	firms	949	33	86	3	238	8	381	13	1,266	43	2,920	100
July 1. 1995	capital	785	30	179	7	365	14	391	15	912	35	2,632	100
	c./firm	1.21		2.08		1.53		1.03		0.72		0.90	

Source: Based on data from Department of Privatization, Ministry of Economy, October 1995.

Note: The table is based on privatized capital - more than 50% might not imply majority employee ownership because the state has retained a proportion of the shares. Further, it must be noted that only registered employee-owned capital in the LIPSP program is included. This does not include certain stocks, which also could be controlled by insiders e.g. through investment funds, or stocks bought before LIPSP or after the first offering.

By 1995, out of the total amount of vouchers 7% was unused, 64% had been used for payment of shares in enterprises, 19% for privatization of apartments and 9% for land and agricultural entities.

By the end of the first stage, privatization did not bring cash inflows to state budget. Government also felt shortage of funds due to restitution of land and real estate, banking crisis of 1995, urgent need of real investments, which forced Government to change privatization policy. At the new stage of privatization, state-owned and municipal property could be sold for cash at market price. Both local and foreign investors as well as legal entities and natural persons obtained equal rights. Though preferential rights of employees were abolished, managers and their family members gained even more influence. During 1996-1997 319 entities were privatized with 84.2 million Litas income to Privatization Fund. Foreign investors accounted for 79% of all privatization proceeds.

In 1997, it became obvious that the privatization law did not offer the necessary tools for the second phase of the privatization process. As the new version of the Privatization law was adopted in December 1997, the number of available privatization methods was increased.

Until 1997 the ownership structure significantly differed from that prevailing in other Eastern and Central European companies, due to extremely low foreign ownership, very high ownership by insiders (management and employees), high state ownership and very low ownership by investors (banks, investment funds, etc.). Since many of the shareholders were not satisfied with the volume of shareholdings, the secondary market of company shares and assets emerged. The value of employees' shares was very low due to the underdeveloped stock exchange, no mechanism of protection of minority shareholders existed, legal regulation favoured large shareholders. Therefore, majority of employees sold their shares, usually at a loss and used the proceeds from sale for consumption.

Data on privatization for the second and third stages show the increase of the number of privatized entities until 2000, and further reduction of employee ownership. During the period shares of only two companies were sold to employees. All other methods favoured foreign investors, strong local investment groups and the management.

By 2005, privatization was nearly complete. Major assets still in government control included the Lithuanian electric power company, Lietuvos Energija, the National Airline, Lietuvos Avialinijos, and the railway company, Lietuvos Gelezinkeliai.

c) Survey Evidence and Case Studies

The development of ownership structure can be analysed on the basis of different surveys on ownership structures done by Mygind in cooperation with the Lithuanian Statistical department (see Jones and Mygind, 1999; Mygind, 1996; Mygind, 1997; Mygind, 2000; Mygind, 2002). The first ownership survey, undertaken in July 1994, elicited responses from 356 quite large industrial enterprises. It confirms, to some extent, the rapid extension of ownership of insiders (mangers and other employees). By July 1994 only 8% of these enterprises had no insider ownership and most of these 25 enterprises were still state-owned. 25% of the enterprises had 31-50% insider ownership, and 18% of the enterprises had majority insider ownership. Most of these enterprises had more shares owned by the employees than by managers. In July 1994 in only 13% of cases with some insider ownership did managers own more equity than the remaining employees. 15% of the industrial firms had insider majority with employee dominance and only 3% had insider majority with manager dominance in July 1994. The Lithuanian industry sample consists of rather large enterprises with an average employment of 600 employees. Manager dominated insider majority has the largest average, but the data do not reveal striking differences in the size structure.

Another survey on construction and trade was undertaken in July 1995, and the results show many of the same tendencies as in industry. Only 6% of the 148 enterprises had no employee ownership in July 1995, and 40% had majority insider ownership. 26% had management dominance and 14% employee dominance. However, this difference from the tendency in industry partly reflects the fact that the numbers for construction and trade are from July 1995, leaving one more year for the change of ownership from employees to managers. There are no striking tendencies in the variation of ownership when comparing enterprises of different sizes except for a weak tendency for higher management dominance in smaller companies.

Looking at the capital structure for the data from the early years the most striking difference between the different owner groups in industrial enterprises is the fact that insider-owned and especially employee-owned enterprises have a relatively low nominal capital or equity per employee. State-owned, foreign-owned and no majority companies have relatively high capital intensity. Turning to construction and trade there was another pattern with insider-owned companies around the average of nominal capital per employee. Only management dominated enterprises have a slightly lower nominal capital per employee. Looking at the total assets per employee, however, insider-owned companies in all the analyzed sectors followed to a high degree the pattern of the average enterprise. This might indicate that in industry insiders and especially managers had been able to get a majority of the shares at a relatively low price. It fits well to the fact, that insiders had the first bid at the initial price in the LIPSP privatization.

More updated ownership information for Lithuania is based on a manager-survey performed in the spring of 2000. It provides information on ownership at the time of privatization or start as a new firm, and for 1993, 1996, 1999 and spring 2000 for 405 re-

spondents.[10] This data gives information both of the ownership at the early period of privatization/start up and the following dynamics in ownership.

In 1993 around 50% of the employees were owners in the whole sample of 404 responding enterprises. However, the proportion of owners fell to around 1/3 in 1999, see Table 3. Not surprising, the proportion of employee owners were highest in employee-owned enterprises, but also here the proportion of owners fell from 76% from 1993 to 66% in 1999. The high percentage of owners among the employees suggests that the Lithuanian voucher system helped employees as a group to overcome the problem of lack of capital. There was also a tendency for the percentage of non-owners to be higher in large enterprises than in smaller.

Table 3. Distribution of Ownership on Employees (Mygind 2002)

\ ownership average per enterprise	state	for-eign	do-mes-tic	mana-ger	em-ployee	no ma-jority	total	priva-tized	new
% non-owning employees 1993	61	76	54	65	24	37	51	38	71
N	(89)	(14)	(47)	(44)	(45)	(55)	(294)	(96)	(44)
% non-owning employees 1996	69	94	63	64	43	39	61	46	94
N	(69)	(27)	(97)	(89)	(42)	(74)	(398)	(238)	(87)
% non-owning employees 1999	74	93	67	66	34	58	66	54	93
N	(63)	(34)	(98)	(96)	(33)	(80)	(404)	(254)	(87)
rather equal	6	7	20	14	9	5	61	34	21
(Pct)	(23)	(54)	(27)	(16)	(28)	(7)	(20)	(14)	(42)

[10] The sample is a stratified random sample and is derived from a database covering 7,546 enterprises that provided financial data for 1997. In constructing our sample we applied the following criteria: eliminate firms that were fully state owned enterprises or were very small (in fact, employed fewer than 20 employees); include all (large) enterprises with more than 100 employees and one third of the smaller firms (employing 20-100). Applying these criteria resulted in 1,372 enterprises being identified. Attempts were made to contact all these enterprises, though many were found to have closed and others refused to respond. The 405 responses make up around 30% of the initial group. Some of the enterprises still had state majority in 2000, therefore only a smaller number is reported in some of the tables below. Furthermore, we have a large data set of 6-7,000 enterprises for 1996 and 1997 with some ownership information. We have financial information for all these enterprises collected by the Statistical Department of Lithuania. The data do not distinguish between private new-started and privatized enterprises. However, the data covers mainly enterprises with 20 or more employees and we can assume that most of the large private enterprises are privatized.

\ ownership average per enterprise	state	for-eign	do-mes-tic	mana-ger	em-ployee	no ma-jority	total	priva-tized	new
unequal (more than 1:2)	8	2	21	16	12	33	92	72	14
(Pct)	(31)	(15)	(28)	(19)	(36)	(43)	(30)	(30)	(28)
very unequal (> 1:10)	12	4	35	55	12	38	156	132	15
(Pct)	(46)	(31)	(45)	(65)	(36)	(50)	(50)	(56)	(30)
N	26	13	74	85	33	76	309	238	50

Table 4. Ownergroups and minority ownership by other groups 1993-99 (Mygind 2002)

1993 \majority ownership average % owned by	state	fo-reign	do-mes-tic	ma-nager	em-ploy-ee	no ma-jority	total	priva-tized	new
state/municipal	94	0.7	6	3	6	21	44	42	1
foreign	0.0	78	3	2	0	5	5	1	27
domestic external owner	0.8	5.3	73	4	6	23	17	21	10
managers	0.5	16	8	75	16	23	15	12	52
other employees	4.7	0.1	10	16	72	28	19	24	10
Total	100	100	100	100	100	100	100	100	100
1996 \majority ownership average % owned by	state	fo-reign	do-mes-tic	ma-na-ger	em-ploy-ee	no ma-jority	total	priva-tized	new
state/municipal	91	0.7	5	4	4	17	22	13	1
foreign	0.3	78	4	1	0	3	7	2	25
domestic external owner	2.3	11	73	6	4	23	26	34	20
managers	1.2	9	8	74	21	28	25	24	45
other employees	5.2	1	10	15	71	29	20	27	9
Total	100	100	100	100	100	100	100	100	100

1999\ majority ownership average % owned by	state	foreign	domestic	manager	employee	no majority	total	privatized	new
state/municipal	93	1	4	3	2	15	19	9	1
foreign	1	81	3	2	0	6	9	5	26
domestic external owner	1	11	78	7	5	28	28	38	20
managers	1	6	7	75	20	26	27	26	43
other employees	4	1	8	13	73	25	17	22	10
Total	100	100	100	100	100	100	100	100	100

All companies have the same weight when measuring the average.

Table 4 shows that minority employee ownership is quite frequent in all types of enterprises. This is not surprising since the first wave of large privatization in Lithuania resulted in widespread employee ownership in a high number of enterprises. For a long period the state also kept a share in most enterprises except foreign-owned. Managers have quite high minority shares especially in employee-owned enterprises and employees have high shares in manager-owned enterprises. Minority ownership by employees is less frequent in foreign-owned enterprises and most frequent in management-owned and non-majority enterprises. Insiders taken together have on average a majority of the ownership in no-majority enterprises. The lowest percentage of non-owning employees is found in enterprises with employee majority ownership. However, the number of non-owning employees is increasing over the period, and the share totally owned by other employees is also falling from 1993 to 1999. Looking at the distribution among the employee owners in Table 3, it is most unequal in enterprises with manager majority. New enterprises have a quite high degree of equality among the employee owners. From all of these cases, there was more than one shift in ownership only in 15 cases. Since this is too few to identify specific tendencies, ownership dynamics are shown in a matrix that covers only the first and the last recorded private ownership type. The results in Table 5 show employee and former employee-owned enterprises being the least stable. The average concentration rate on the largest single owner increases in Lithuania from 41.6% to 47.5% during the period of observation. The most frequent change is clearly from employee to managerial ownership, followed by the change from employee and former employee ownership directly to external domestic ownership. All these changes are accompanied by steep changes in concentration. Except for one case, there are no shifts from outside ownership to employee ownership.

Table 5. Lithuania ownership transition matrix: privatization/start to 2000

\2000 priv/start	foreign	do-mestic	manager	em-ployee	former employee	total	change
foreign	31	3	2	0	0	36	13.9%
domestic	2	70	6	1	3	82	14.6%
manager	3	5	69	6	0	83	16.9%
employee	6	10	33	41	3	93	55.9%
former employee	1	11	4	2	18	36	50.0%
total	43	99	114	50	24	330	

(Jones and Mygind, 2005)

Although the tendency since privatization has been a sharp fall in the incidence of employee participation in ownership there are also some new trends going in the opposite direction. We have found several recent cases where employees have got shares in companies as part of employee incentive schemes. In the case of limited liability company Bitė GSM, second largest mobile service provider in Lithuania, every company employee was granted a possibility to become stockholder of joint-stock company TDC, the sole owner of Bitė GSM. Employees were offered TDC stock options to purchase company shares at a price of 10.49 Euro (36.2 Litas) in 5 years. The offered price was three times lower than the traded price at the moment of the offer. Each employee received an option to purchase up to 90 shares (see Dubauskas, 2005). Another case is of the Baltic Beverage Holding which included possibilities for employees to acquire shares of the company in the employee loyalty programme (see Aleknienė, 2003). In several cases employees (especially management) of branches of foreign companies were offered to buy shares of the company at a discount.[11] The offers are made at the end of the year as a form of remuneration of employees. Such opportunities are attractive when company shares are traded at stock exchanges and appreciation of share prices is expected.

We have investigated a specific case of limited liability company Information Technologies (Informacinės technologijos). In an interview[12] the company manager provided information about the use of employee stock options. The major reason for application of this form of employee financial participation was to ensure company growth and to improve performance. Since human capital, knowledge and new ideas are major factor of company development, possibility to purchase company shares is viewed as a way to attract and retain especially skilled and talented employees. Such a possibility was granted to company CEO, heads of departments, project managers,

[11] Source: Interviews with company branch management conducted in April 2005.

[12] The interview was conducted by Ms V. Urmonaitė in April 2005.

chief financial officer and others. These employees are offered to buy a limited number of shares at the end of each year at a price equal to 25-33% of annual salary. For this purpose the company increases statutory capital by new share emission annually. New employees are granted such rights after a few years of work in the company. The scheme allows to maintain stable ownership structure as shown in Table 6 below.

Table 6. Ownership structure of Information Technologies 2000 – 2003

	Company management	Company employees	Foreign investors	Other investors
2003	45%	24%	28%	5%
2002	45,45	22,20%	28,40%	4,00%
2001	45,60%	21,60%	28,65	4,20%
2000	46%	22%	27%	5%

Thus, we can distinguish several methods of development of employee stock ownership: through sale of company shares at a discount, through stock options, and by remuneration of employees with company shares. Such employee financial participation schemes are being developed to a greater extent in specific types of companies, namely in large companies, in foreign-owned companies, in joint-stock companies listed on the stock exchange, and in new knowledge based companies.

d) Privatization in Agriculture

Agricultural reform, according to which agricultural workers were granted small plots of land (of 3 hectares each), formed a layer of small farms. Though concentration processes have started in agriculture, small (especially, dairy) farms are still prevailing. Since the start of agricultural reform until January 2005, 745.5 thousand application for restitution of property rights on 4.2 million. ha of agricultural land have been submitted. Property rights were granted to 688 thousand citizens (90.9% of applications) for a total of 3.73 million. ha of land. In cases where restitution of property was not permissible citizens were compensated by other defined state property (Resolution No. 1130 of the Government as of 12 July 2002 'Concerning Compensation to Citizens with State-Owned Securities (Shares) for the Remaining Real Estate Redeemed by the State').

Due to the mentioned specific features of agricultural reform, employee ownership is not wide-spread, small family farms are prevailing. There are approximately 400 registered agricultural co-operatives in 2003, however, only a part of them are operating.

e) Co-operatives

Various types of co-operatives, including consumers, agricultural, production, workers, and credit co-operatives exist presently. The number of operating co-operatives is two times lower than the total number. The majority of co-operative societies are small employing up to 9 persons. The number of workers' co-operatives is very small.

Table 7. Co-operatives at the beginning of year

Co-operatives	2003			2004		
	Registered	Operating	% of registered	Registered	Operating	% of registered
Co-operative limited liability company	10	3	30	4	2	50
Co-operative limited liability company founded by limited liability company	5	4	80	2	2	100
Co-operative enterprise	9	1	11	4	-	-
Co-operative company	509	236	46	531	258	49

Source: Lithuanian Department of Statistics.

f) Profit-Sharing

Since emigration rates of skilled employees are increasing, the competition between domestic companies, including branches of foreign companies, on human resources, is developing, and different motivation schemes are introduced. Genuine profit-sharing is quite rare; share repurchases and monetary incentive schemes prevail. Several types of monetary incentive schemes have been developed for managers and other employees, which can be attributed to direct profit-sharing. For company CEOs, premiums and bonuses depend upon annual turnover, and, in some cases, on profit.[13] Such schemes are popular in branches of foreign companies as well as in domestic large- and middle-sized companies. For employees, premiums and bonuses are related to annual or quarterly profit only if their input into the profit can be measured. Thus, in fact forms of gain sharing are used. Fringe benefits paid from earned profit or included directly into costs, as free of charge mobile calls, leasing of automobiles, low interest/ free loans,

[13] Combination of wages and salaries with profitability was not very popular (especially, before company income tax reduction to 15% in 2003), since finance management in majority of companies is oriented towards minimization of taxes paid.

free visits to sport centres, payment for different level studies have been expanding rapidly (see Meškauskaitė, 2005). Investment in private pension funds and accumulated life insurance as a means of motivation for employees have been extensively used first by branches of foreign companies and then also by domestic IT, advertising, telephone, construction, furniture and textile companies since 2004 (see Dževeckytė, 2005; Dubauskas, 2005).

4. Empirical Evidence of Economic and Social Effects

The data for the analysis of the effect of employee ownership on performance can be taken from the earlier mentioned ownership surveys combined with financial data from the enterprises. We have data for the 90ies, especially the first half, when employee ownership was widespread. The high frequency of employee ownership in this period makes it possible to make reliable statistical analysis on their relative performance. The drawbacks are that the financial data is quite uncertain in this volatile period, and that the data is not updated. Based on the data for the early years 1992-1995 it is found that management ownership had a higher incidence in small enterprises, but employee ownership had a quite high frequency both in small and large enterprises (see Mygind, 1994). The data for the early years do not indicate a bias in direction of low capital-intensity for insider- owned enterprises as it was the case in Estonia and Latvia (see Jones and Mygind, 1999). In Lithuania, high capital intensity has not blocked takeovers by employees, because vouchers combined with a preferential price favoured the group of employees. There does not seem to be a selection bias according to profitability (see Mygind, 1997).

The early data from 1993-1994 show that for growth of sales employee-owned enterprises followed the average, while domestic outside-owned enterprises were below the average. Insider-owned enterprises had quite high labour-productivity, and employee-owned enterprises had for a wage level above the average in 1994. Employee-owned enterprises were doing well compared to other groups both in relation to profit margin and return on assets. Management-owned enterprises were around the average. Insider-owned enterprises had relatively low bank loans and low investment levels (see Mygind, 1997, pp. 49-79). A cross section analysis on factor productivity levels for the early data shows no clear tendencies of variation between employee-owned firms and other owner groups (see Jones and Mygind, 2000, pp. 415-439).

The 405 enterprise survey shows that manager- and employee-owned enterprises have relatively low salaries for managers, which can partly be explained by lower average size (see Mygind, 2002). The average wage for all employees is also lower in these firms. The survey investigates five indicators of restructuring: change in products, production process, markets, suppliers and organizational structure. There was an increase in the changes over the period for all enterprises with organizational change as the most fre-

quent type of restructuring. Employee-owned firms were relatively low on products, production and markets, but quite high in finding new suppliers. Insider-owned enterprises have, on average, a slow development in exports, but much of this can be explained by different weights in the distribution on industries. Insider-owned enterprises have relatively low investment levels. Combined with the analysis on sources of finance it confirms earlier findings (Mygind, 2001) that lack of capital is a barrier for insider-owned enterprises.

The recent case study on the IT company Information technologies shows that one of the positive results of employee financial participation in IT industry is employee stability, only two of eight members of the team, which founded the company, have left. Other positive results are the increase in company share value, turnover and profitability growth. Earned profit is also used for annual dividend payments. Value added per employee has reached 161,000 Litas in 2002. The company has also evaluated another labour productivity measure - value added per employee per hour as equal to 24.9 Euro. This ratio exceeded average ratio for the EU service sector (24 Euro).[14]

5. Conclusions

The current level of development of financial participation of employees is relatively low. Before summer 1995, there has been strong support for employee ownership, but most regulations on preferential treatment of employees were abolished afterwards. Seldom, profit-sharing is used by individual firms. The number of co-operatives, especially workers' co-operatives, is small. The number of self-employed persons is high due to advantageous taxation. Recently, employers have been paying more attention to the motivation of employees, i.e. by financial means, because of the problem of increasing emigration of skilled workers. Employee majority enterprises had, at least in the early years, relatively high productivity, but lower level of salaries and lower capitalisation.

Employee share ownership emerged as a result of privatization. At the initial stage of privatization 1991-1995, employee-buy-outs at a discount combined with the extensive use of vouchers by the employees and leasing with the option to buy have led to a high percentage of employee ownership After most of preferential rights of employees were abolished in 1995, employee ownership changed partly to management and then to outsider ownership, whereby the concentration of ownership increased.

Financial participation of employees is only scarcely regulated. Companies can issue special employee shares in the course of capital increase which can not be owned by

[14] Source: Interview with company management conducted in April, 2005. http://www. informacinestechnologijos.Litas.

the management. These shares can be sold only to other employees and no voting rights are attached to the shares during the restriction period. The shares can be paid for in instalments and/or by deductions from the salary, but the corporation is not allowed to put pressure on employees in order to force them to purchase shares or to pay for shares by deduction. Profit sharing is not regulated.

The EU accession has not influenced the development of participation of employees in Lithuania as yet, apart from the legislation on the involvement of employees in decision-making in European Companies and on European Works Councils in Community-scale undertakings and Community-scale groups of undertakings. Some practices of financial motivation of employees used by branches of Western European firms in Lithuania were taken over also by some domestic companies.

The government and the social partners do not support financial participation of employees presently. Combating unemployment, increasing salaries and improvement of working conditions are dominating the political agenda. Although financial participation could help solving some of these problems it is not taken into consideration. If EU regulation were introduced, it would probably change the attitude of the Lithuanian lawmaker.

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