Extended Country Report

Financial Participation of Employees in the Slovak Republic

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2006

A project of the Inter-University Centre Split/Berlin, Institute for Eastern European Studies, Free University of Berlin
Funded by the European Commission and the Kelso Institute - For more information see http://www.intercentar.de

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1. Background

The Slovak Republic - being part of former Czechoslovakia - initially starting with a focused policy favouring the voucher concept revised its conceptual framework soon after the separation from the Czech Republic. After the break-up of Czechoslovakia in 1993, Slovakia underwent difficult times of Mečiar's reign followed by the political and economic stabilization since 1998. Following the completion of the first wave of voucher privatization, which was delayed through frequent political struggles, the new government decided to change the concept and to focus on traditional privatization methods - especially trade sales but also insider privatization - in its second privatization wave.[1] The resulting corporate governance and structure of enterprises is driven by the pre-1993 conditions as well as political development during the Mečiar's government. In spite of political declarations during the mid-1990s, in result, PEPPER schemes have not played any notable role and financial participation remained marginal.

a) History

The reasons for this development are mainly to be found in the different historic starting point at the beginning of ownership transformation. Other than in Poland were the attempts of political and economical reform in Czechoslovakia radically eliminated by the Soviet invasion in 1968. When Poland established self-administration of the enterprises in 1981 together with the resultant relative independence of the state enterprises Czechoslovakia was facing a strong central presence in state-owned enterprises and very weak, obedient official trade unions. Polish enterprise organs had a strong position, relatively independent from the state and the branch ministries, independent trade unions gave workers a powerful representation and even under martial law employees retained considerable influence over enterprise management. In Czechoslovakia workers had little if any power within the state enterprise, even under the partial reforms of 1988/89 the employee participation remained extremely weak, state planning authorities were still entitled to impose obligatory requirements on the enterprises.[2]

The most significant number of companies which were controlled fully or prevailingly by employees existed in the newspaper sector in the beginning of the transition period. In these cases usually employees led by their management 'privatized' originally state-owned newspapers, by collectively swapping to an employee founded publishing company announcing to their readers, to continue the newspaper under a slightly altered title. As a rule the publishers agreed to sell or lease the rest of his rights to the new

[1] The new policy was formulated in the governments programme declaration of 1995 and the tool to enforce these intentions was the Slovak Republic National Council Act No. 192/1995.

[2] This explains the missing resistance of the workforce and partly also the management, which in Poland were de facto disbanding themselves through transformation.

publisher.[3] Due to the very competitive newspaper market emerging in the early 1990s and the lack of concepts to run the companies as employee-owned on the long run, all important employee-owned newspapers were sold to foreign publishing groups.[4]

Slovak large-scale privatization, similarly to the Czech Republic (due to its common origins), was the most important privatization program and driving force of future developments on Slovakia. It was conducted by the Ministry of Privatization (responsible for implementation of privatization) which was later replaced with the National Property Fund (NPF, acting as owner). The fund was a share holder and was also entitled to execute or delegate ownership rights not only during the privatization but for the whole period it held particular shares. It was not only the vehicle of privatization but also of state ownership rights execution. Large-scale privatization techniques were designed similarly as those described in the Czech Republic (or Czechoslovakia). The general pattern was preserved: Auctions and tenders were used for small firms; medium-sized firms were usually sold in tender and the largest corporations were transformed into joint-stock companies with their shares distributed during the voucher privatization, sold (either in various tenders or to predetermined owner) or transferred for free. Some large industrial companies in the Slovak Republic have founded their own Investment Privatization Funds. These Funds later invested into its founding company and in related enterprises in the same industry and are focused on attracting employees into the fund. Among industrial companies founding Investment Funds, the most important example and the largest is VSZ Košice, East Slovak Steelworks, the major employer of East Slovak region. [5]

After the break-up of Czechoslovakia, the voucher method was abolished and all steps in the second wave were nullified. Instead, during the Mečiar's reign, the entire remaining large scale privatization was executed via non-transparent direct sales preferable to close supporters of the leading political party. Citizens were given treasury bonds instead of originally intended shares and each participating citizen received the same amount of governmental bonds. Among others also insider privatization was entitled with an own special programme, which foresaw the participation of employees of established companies as well as the issuing of employee shares.[6] Despite of the promises of the program[7] non-competitive direct sales, mostly at very low price and favouring inside management were the most frequent form of direct sales accounting for 83% of the property to be privatized. The subsequent reformist government and as well the

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[3] E.g. in the case of the well known Mladá fronta, the daily with the highest circulation.

[4] Starting with Mladá fronta sold to French publisher Hersant, and ending with Lidové noviny sold to Swiss publisher Ringier, employees have decided to sell first a part of the shares, and later the majority of them to another owner. In late 1990, none of national wide dailies was controlled by employees.

[5] For the activities of these funds see Hajko (1994).

[6] The so called 'Principles of Implementation of Workers Participation in the Privatization of Enterprises', materials prepared by the Minister of Privatization Peter Bisák to be presented to the government, unpublished, Bratislava, Mai 1995.

[7] See Baláz (1994) and Prno (1993) reflecting the public discussion.

Dzurinda government as of 1998 focused on the privatization of the remaining state-enterprises which included telecommunications, gas utilities and large banks.

The sketchy available information on results of the privatization is provided in Tables 1 and 2.

Table 1: Small-scale privatization in Slovakia

	1991	1992	1993	1991-1993
Businesses privatized	7,472	2,153	42	9,667

Source: Fidrmuc et al. (2002).

Table 2: Large-scale privatization in Slovakia

	Total Book Value Property	% of Total
First Wave		
Standard methods (auction, public tender and direct sale)	15.85	15.6
Vouchers	79.57	78.5
Other non-standard methods	5.92	5.8
Total	101.34	100
Second Wave		
Standard methods (auction, public tender and direct sale)	88.27	92.3
Vouchers	0	0
Other non-standard methods	7.41	7.7
Total	95.68	100

Source: Fidrmuc et al. (2002).

b) Social Partners

As described in Kotrba (1995), labour-management played a significant role in the social democratic party's election program in both the 1990 and 1992 elections, ESOPs were an important element of the 1992 program of the 'Liberal Social Union' and partly in the program of the communist party. Employee ownership was also extensively discussed in the (religiously oriented) Czechoslovak People Party in 1990 and advocated by Ota Sik, a prominent economist active in the 'Prague's Spring' economic reform in 1968 and, in 1990, an economic advisor to the president Václav Havel. And last but not least, until the summer of 1990, Employee Share Ownership Plans (ESOP) were discussed within government and employee ownership was listed as one of the privatization methods in some of the early 1990 government documents.

Current general attitudes toward employee participation as well as the past ones can be characterized as 'unsuitable for Slovak economics'. External ownership is the most preferable form of ownership and no incentives to encourage different types of ownership or employee participation are provided. A possible explanation might be a pervasive notion of a positive effect of (although mainly foreign) external owners on the performance and profitability of firms. Surveying the past and recent literature on enterprise sector development and corporate governance in Slovakia reveals that there is no professional or public interest in employee participation. In particular, there is not even a mention about the insider ownership shares, at best, the managerial ownership and buy-outs are dealt with.[8]

In general attitudes toward employee participation are similar to the situation in the Czech Republic. The trade unions as a whole seem also uninterested: the only document on the website of the Confederation of Trade Unions of the Slovak Republic that mentions employee shares is about social dialogue, not about shares as a form of corporate governance; the occurrence is only casual, and does not seem to bear any weight at all.[9]

c) Current National Policy

Today, political parties seem to ignore this issue with exception of Communist party which explicitly mentions employee shares; the program is from 1994 though and has not been modified in this part since then. Based on these, partly anecdotal, pieces of evidence we claim that there is not likely the possibility the employee shares will become a focal issue of the governmental of economic policies in near future as it is of interest only far left of political spectrum and not of interest on trade unions, government or general public. Current national policy prefers foreign ownership. Overall, it is not an issue which form of privatization is to be deployed as selling firms to a foreign investor is considered to be the best option. The top targets of the National policy are taxes, the social benefit system and foreign investments. Employee participation is not on the agenda of any significant political force (including unions).

A possible explanation might be a bleak labour market situation. Even after 15 years of economic transition the unemployment rate is still at the level of two digit numbers (in July 2005: 15.2 %). Nor Mečiar's, nor the reformist's government of Dzurinda since 1998 succeeded to bring unemployment below 10%, but lately, the rate was decreasing.

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8 Beblavý (2003) has a simple model of insider managerial behaviour showing that in case of inefficient bureaucracy and weak legal framework the insiders (managers) are not subject to any control. Then the tunnelling and asset stripping by the insiders is the equal method of corporate control that can be as common as any standard form he has in his model.

9 See http://www.kozsr.sk/sk/twinning.html

2. Types of Schemes and their Legal Foundations

The Slovak mass privatization scheme did not prefer employee ownership; the possibilities and outcomes were similar as in the Czech privatization scheme: in case of allocation of employee shares the (nominal) price to be paid was exceeding the market one. Specific employee share ownership programs or a particular law or regulation created to regulate specific issues on employee share ownership do not exist. The only form of labour participation in ownership structures of corporations covered by the law have been co-operatives and – to a limited extend – regulations on the acquisition of shares by employees and profit-sharing in joint-stock companies. Privatizations in the form of 100% employee-owned enterprises or saving plans resulting in financial participation did not occur.

a) Employee Share Ownership

(1) Employee Shares

Regardless of the lack of support for employee ownership in the framework of privatization concepts special provisions for 'employee shares', which could be issued also as part of privatization transactions of state-owned enterprises, were adopted in the Czechoslovak legal system in 1990. The Law on Joint-Stock Companies of April 18th 1990[10] supplied joint-stock companies with the possibility to issue free or discounted shares for their employees. These 'employee shares' entitled the shareholder with the same rights as regular shares except for the obligation of retiring or departing employees to sell back the shares to the enterprise. This employee friendly provision was weakened, when on January 1st, 1992 the Commercial Code (CC)[11] came into force, superseding the Law on Joint-Stock Companies and limiting the volume of the overall value of the granted discount for the issued shares up to 5% of the enterprises equity capital. The Commercial Code also permitted rights pertaining to 'employee shares' to be different to those of regular shares, which has become the rule.[12]

Finally, in 2001[13] the concept of genuine 'employee shares' as a special type of share was abolished in favour of the possibility for joint-stock companies to include rules in their statutes under which their employees may buy company's shares with a discount. According to § 768c para. 17 CC previously issued 'employee shares' had to be converted into regular shares by a decision of the general shareholders assembly until January 2004 (Moravčík et al., 2004, § 768c para. 17 CC, pp. 1287 f.). In case that the

[10] Sb. 1990 No. 111; effective as of May 1, 1990.

[11] Commercial Code 'Obchodný zákonník', of November 5th 1991, Sb. 1991 No. 513.

[12] See for the Czech stipulations Štenglová et al. (1996), § 155 f.

[13] Law 500/2001 Z.z., effective as of January 1, 2002.

conversion requirement is not timely met § 768c para. 14 CC foresees the possibility of the liquidation of the company by court decision.

(2) Acquisition of Shares on Preferential Conditions

§ 204 para. 4 CC introduced the possibility of acquisition of shares on preferential conditions into the Commercial Code and replaced 'employee shares'. It had its origin in the harmonisation of the Slovak legal system with the *acquis communautaire* (see Moravčík et al., 2004, § 768c CC, pp. 1280 f.) and the incompatibility of the concept of a special type of shares in some sectors of the economy. The main reason for this change though was the problem of the repurchase obligation for the company when employees left the company and the lack of a market for the shares inhibiting employees to sell them if they wanted so.[14]

The general prohibition to acquire own stock which is regulated in §§ 161a and 161 f CC does not permit that a company acquires its own shares in order to sell them to the employees of the company (see Moravčík et al., 2004, § 209a CC, p. 694). However, the corporation charter can allow, that apart to the rules laid down in § 161 a para. 2 lit. a) CC the company can acquire own stock with the aim to transfer them to employees; those shares have to be transferred within 12 months after they have been acquired by the company. Furthermore, under the current legislation joint-stock companies may issue new shares granting employees favourable conditions in the context of so called mixed capital increases according to § 209a para. 1 CC, i.e. a capital increase of a company issuing new stock financed by the companies own capital. § 209a para. 3 CC stipulates that in such a case the purchase price has to be paid according to the deadlines, included in the general shareholders assembly's decision. However, according to § 204 para. 4, the general shareholders assembly can decide, that a certain amount of those shares can be offered to employees at a lower price than the emission price; the difference shall be paid from the own resources of the company.

(3) Incentives

In order to facilitate the acquisition of shares by employees the legislator has provided the possibility that a company may fully pay up stock which is acquired by the employees of the company. Prerequisite to such preferential conditions for the purchase of shares by employees is according to § 204 para. 4 CC that the volume of the overall value of the granted discount for the issued shares has to be covered by the company's own resources (see Moravčík et al., 2004, § 204 CC, p. 674). The terms will be decided in a general shareholder's decision. In the case of the mentioned mixed capital increase, applying § 204 para. 2 CC and in analogy to § 209a para. 3 and 5 CC, the total discount may account up to 70% of the share price provided for that the remaining 30% are

[14] As it was also the case in the Czech Republic, see Štenglová et al. (2004), § 158.

paid by the employees at the moment of the transaction, unless the down payment for the acquisition is financed otherwise (see Moravčík et al., 2004, § 204 CC, pp. 674 f.).

In fact § 161e para 2 CC contains an additional regulation permitting the company, in deviation from the general prohibition to leverage the acquisition of own stock, to do so in order to facilitate the acquisition of shares by employees of the company (see Moravčík et al., 2004, § 161e CC, p. 574). The company thus may give loans to their employees in order to acquire newly issued shares or to buy them from third persons as well as guarantee for such loans from third persons provided for that this does not endanger the own funds of the company.

Thus the acquisition of shares by the employees of a particular company may be leveraged through the company by discounting the purchase price, crediting and financing it, securing it or a combination of the three preferential conditions.

(4) Management-Led Employee Buy-Outs[15]

Among others in the course of the policy change in 1995 also insider privatization was entitled with an own special programme, foreseeing employee established companies as well as the issuing of employee shares.[16] The Slovak Republic National Council Act No. 192/1995 was the basic legal act, accelerating above all direct sales, simultaneously subsidising domestic entrepreneurs, enabling them to participate in the privatization process under favourable economic conditions. Direct sales were to be used for enforcing employee ownership, obliging the transferee either to issue employee shares that accounted for 10% of the companies' equity capital or to enable employees to acquire at least a one third stake in the transferees' equity.[17] Instalment payments scheduled for 5-10 years with the first instalment at about 20% of the purchase price were foreseen in order to compensate the domestic financial capital shortage.

Despite of the legal foundations the program launched by the Ministry of Privatization was never successfully implemented due to political hurdles (see Mikloš, 1995, pp. 22 f.) and a shift in power from the Ministry of Privatization to the National Property Fund.[18] Contrary to the initial intention of leveraging Employee-Buy-Outs as a rule, Management-Led Employee Buy-Outs (MEBO) were implemented with the managers holding more than 50 % of the shares. The subsequent reformist Dzurinda government abolished the system of intransparent direct sales including the MEBOs when it came into power in late 1998.

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15 For more details see Lowitzsch (2002).

16 The so called 'Principles of Implementation of Workers Participation in the Privatization of Enterprises', materials prepared by the Minister of Privatization Peter Bisák to be presented to the government, unpublished, Bratislava, May 1995.

17 See News for Investors, Slovak Agency for Foreign Investments and Development SNAZIR, Bratislava 1997, Issue 1-2, p. 10.

18 Law No. 190/1995 Z.z.

b) Profit-Sharing

There is no prohibition in the Slovak legal system with regard to profit-sharing of companies with their employees. However, the only explicit regulation is provided for by § 178 para. 4 CC stating that – in accordance with the corporation charter – employees may be entitled to a share in the company profit (cash-based profit-sharing). The corporation charter or the general shareholders assembly may also stipulate that the part of profits that is allocated to the employees is used exclusively to purchase shares on preferential conditions or make up for the discount granted to the employees in such a purchase (Share-based profit-sharing) (see Moravčík, 2004, § 178 CC, pp. 609 f.). Furthermore, share-based profit-sharing is mentioned in the context of capital increases. As a rule a capital increase requires the decision of the general shareholders assembly, but § 210 CC – in accordance with the corporation charter – foresees the delegation to the management board. § 210 para. 4 CC regulates this for a capital increase by the issuing of shares to be transferred on preferential conditions to employees. It stresses this possibility especially for the case that the general shareholders assembly previously has decided that the part of profits that it allocates to the employees is used exclusively to purchase these shares.

The legislator obviously saw the possibility of allocating company profits to employees in the form of both cash and shares. Thus, in principle, it is possible to determine a part of the remuneration to be dependent from the profit of the company or to provide benefits in the form of premiums as well as other benefits directly connected with the profit of a particular company. All those benefits will be subject to the personal income tax of 19 %.

c) Co-operatives

Co-operatives are legally defined in §§ 221-260 CC. A co-operative is a voluntary association of natural and/or legal persons created with the purpose to provide an economic activity or to safeguard the economic, social or other need of its members.[19] The co-operative is a legal person and every member of a co-operative may participate in the management of the co-operative, each member having one vote in decisions[20], unless the statutes of the co-operative stipulate something else. It is liable for its obligations with all her assets; its members are not liable unless the statutes of the co-operative stipulate that by decision of the general meeting some or all of its members have to cover losses of the co-operative.[21] Each member is entitled to a share of the profit of the co-operative – unless the statutes of the co-operative stipulate something else – according to the investment of the respective member; the volume of distributed profit is set by the general meeting.[22] Furthermore, in the case of the liquidation of the

[19] See § 221 para. 1 CC.

[20] See § 240 para. 1 CC.

[21] See § 222 para. 2 cl. 2 CC.

[22] See § 236 CC.

co-operative, each member receives a liquidation quota according to his share.[23] The profit shares of co-operatives are taxed like any capital gain (i.e., on shares).

d) Tax Issues

Although discounted employee shares and profit-sharing is possible under the Czech law, there are no tax incentives for the use of these possibilities, e.g. special tax breaks for employee shares do not exist. The most important regulatory acts connected with employee financial participation in companies is the Law on Income tax[24] regulating both, personal income tax and enterprise income tax on the general rate of 19 %. As for some other incentive mechanisms, they virtually do not exist. Trade unions can negotiate some additional benefit, e.g. the 13th salary, but it in general it does not provide a desired incentives and it perceived more as the expected end of the year bonus and not as a tool of profit-sharing.

e) Participation of Employees in Decision-Making

There are no special rules for participation of employees in decision-making concerning PEPPER schemes or privatization matters. The general rules of the Commercial law do apply, stating that stocks as well as shares grant the right to shareholders to take part in the administration of the company, to receive dividends and, in the case of the liquidation of the company, a liquidation quota.[25]

Furthermore, according to § 200 CC joint-stock companies with more than 50 employees must have 1/3 representation of employee-delegated members in the supervisory board. This regulation goes back to the mandatory 50% representation on state-owned enterprise's supervisory boards established by the reform of the Law on State-Owned Enterprises of April 19th 1990[26], which resulted from a reduction of the employee management participation existing prior to the collapse of the communist regime in November 1989. One of the main reasons for the reduction of codetermination was the governmental mass privatization programme which was incompatible to a strong employee representation. However, employees behave quite passively in using this device. It is rather the centralized structure of Labour Unions which attempts to affect what is going on in the economy or in a given sector (using Tripartite negotiations), than the workers themselves in their companies.

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23 See § 259 para. 3 CC.

24 Law No. 595/2003 Z.z. on Income Tax (Zákon o dani z príjmov).

25 For limited liability companies see §§ 114, 122, 123, 125 ff., for joint-stock companies see §§ 178, 179, 180 ff. CC.

26 Sb. 1990 No. 111, effective as of May 1st, 1990.

3. Incidence Now and Over Time

No comprehensive information is available on the overall incidence of PEPPER schemes in the Slovak Republic, the evidence we found is rather anecdotal. Unlike the Czech Statistical Office, the Slovak Statistical Office provides the industry structure by the form of ownership only since 1999. Also, the Slovak Statistical Office did not recalculate various historical data series to reflect only Slovak lands of Czechoslovakia. Therefore, one can not easily infer on the overall enterprise sector development and the effect of the country split. Nevertheless, the overall trends seem to be quite similar both in pre- and post- split times. No data is available to assess the extent of the coverage of the existing schemes except for co-operatives. Therefore it seems that, similarly to Czech Republic, the predominant form of employee participation are co-operatives.

a) Share Ownership

Similarly to Czech Republic, due to the common origin of the first phase of privatization, a number of companies (former state-owned and privatized, fully private or joint ventures) have chosen to introduce some forms of employee ownership. However, despite the split of the Czechoslovakia and change in Slovak privatization attitude, current situation is not that different. For example, SlovGlass was privatized using employee shares. In 2003 the trade union representative noted that since 1994 where the shares were distributed no dividends were paid. Therefore, the employees are not interested in buying any shares even for preferential price. The only plus mentioned of the employee co-ownership in his answers is that the wages are paid regularly (http://www.sklar.sk/2003/3.php).

Similarly, the Slovak banks have used 'employee shares' to improve the motivation of their employees and thereby alter the productivity of the enterprise. For example, Tatrabanka was selling its own shares for nominal price. By comparing the dividend flows the total stock of employee shares was around 1% in 2000. On the other hand, the foreign companies (mainly US based) tend to implement their global policies and if these contain stock options, the incentives are to implement these as well (e.g., B. Hauer director of Dell for Slovakia supposes the program to be open for employees of Bratislava Call centre).

b) Management-Led Employee-Buy-Outs

Empirical evidence on Management-Led Employee-Buy-Outs in the Slovak Republic is solely anecdotal, with only a few cases being reported in newspapers. Such the case of the privatization of the preciously commercialised Slovnaft Joint-Stock Company[27], in which the Slovak National Property Fund – after a capital increase to 16.5 billion SK –

[27] For a detailed report see Trend of October 4, 1995 'Slovnafts Managers are already co-proprietors' (in Slovak).

sold 39 % of the shares to the Slovintegra Joint-Stock Company remaining the second largest shareholder with 25 % of the shares.[28] Slovintegra was founded by 19 ex-managers of the previously state-owned Slovnaft with the participation of employees and after the transaction employees hold 49 % and management 51 % of the shares. Of the total sale price of 6.4 Billion SK a first down payment of 100 Million SK, i.e. 1,6%, was made by Slovintegra when the contract was signed. Another 900 Million SK have to be paid in instalments during the following 10 years, while the remaining 5,4 Billion SK were reduced in exchange for the obligation to invest 20 Billion SK until the end of 2001 into Slovnaft. For Slovintegra the price per share was about 156 SK while they were traded on the capital markets at the time at 830 SK.

Another case is a cement producing company in Ladce which was privatized in September 1995 involving more than 95% of the employees of the former state-owned enterprise. In the privatization project PortlandCement Joint-Stock Company, acquiring 58% of the shares of the commercialised company, as main shareholder was obliged to offer its own shares to the employees. The acquisition of the shares by the employees was financed by a communal bank.[29]

c) Profit-Sharing

Although the legislation allows various methods of profit-sharing, such schemes seem to be, in practice, rarely implemented. Again, to our knowledge the only widely practised mechanism are those that allow the trade unions to negotiate a compensation formula that sets additional benefits (e.g., 13th salary or similar benefits) in case the firm meets agreed profit target. Due to the past dependency and presence of 'yearly bonuses' even in the command economy, this is not perceived as motivation scheme but rather as expected part of the wage.

d) Self-Entrepreneurs

Unlike in the Czech Republic, the number of self-entrepreneurs was slightly decreasing till mid nineties. The trend has reversed in 1998. There is one important feature of self-employment, a substantial portion of self-employers still kept regular jobs and undertook the entrepreneurial activity as a part-time job. On the contrary, the number of private farmers was more or less stable during the first phase but started to decline significantly in 1998. The number of co-operatives behaved similarly, after the peak in 1996 we observe reduction by more than one quarter and stagnation in recent years.

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[28] At the time the biggest direct sale of the Slovak National Property Fund.

[29] For a detailed report see Trend of Feb. 28, 1995 'More than 95% of the employees are taking part in the privatization of the cement producing company in Ladce' (in Slovak).

Table 6 – Number of businesses, by selected legal form or ownership

Year	Enter-prises	Joint Stock	Ltd.	Coops	State	Foreign	Self-Entre-preneurs	Farmers
1993	28,522	1,691	18,147	**1,922**	1,049	437	264,090	17,632
1994	36,187	2,117	25,024	**1,988**	1,082	633	263,733	20,789
1995	43,636	2,708	31,470	**2,081**	1,030	776	248,204	19,599
1996	47,866	3,425	39,378	**2,233**	846	898	226,665	21,014
1997	53,819	3,297	40,228	**1,923**	203	871	244,419	20,571
1998	60,334	3,916	46,339	**1,917**	149	923	263,733	19,122
1999	58,333	4,060	45,277	**1,802**	97	815	266,903	17,616
2000	60,920	4,208	47,810	**1,747**	75	908	269,323	15,550
2001	62,867	4,229	50,073	**1,682**	67	1,668	279,597	11,722
2002	59,486	3,993	47,865	**1,523**	44	1,361	273,322	11,710
2003	64,420	4,135	52,673	**1,517**	37	1,427	306,356	10,320
2004	74,207	4,341	61,919	**1,564**	35	1,516	336,640	10,055

e) Co-operatives

The basic information on the ownership structure of the Slovak economy is provided in Tables 3 and 4. Table 3 provides data on number of industrial enterprises while the data included in Table 4 is based on the registry and hence covers the whole economy. We see a minor importance of co-operatives on the corporate structure of the Slovak economy. It constituted only 9% of the total number of industrial firms in 1993 and it decreased by 2% till 1996. In the overall figures we can see declining trend in 1999-2002 resulting in coops constituting less than 3% of all enterprises in 2002.

Table 3: Corporate structure of industry: number of firms (in %)

	1993	**1994**	**1995**	**1996**
Co-operative	**9**	**8**	**7**	**7**
Ltd. Company	33	44	50	54
Entrepreneur	3	2	2	2
Joint-stock comp.	29	29	31	32
State-owned company	26	17	10	5
Total (%)	**100**	**100**	**100**	**100**

Source: Ivana Studená (2004).

Table 4: Profit organizations by selected forms of ownership

Ownership	**1999**		**2000**		**2001**		**2002**	
	Number	%	Number	%	Number	%	Number	%
Foreign	5,172	8.9	5,754	9.4	6,155	9.8	5,680	9.5
International	5,460	9.4	5,639	9.3	5,720	9.1	5,031	8.5
Private inland	44,505	76.3	46,474	76.3	48,337	76.9	46,228	77.7
Co-operative	**1,855**	**3.2**	**1,793**	**2.9**	**1,703**	**2.7**	**1,546**	**2.6**
State	690	1.2	619	1.0	306	0.5	261	0.4
Municipal	498	0.9	507	0.8	515	0.8	499	0.8
Ownership of associations and political parties	141	0.2	133	0.2	130	0.2	241	0.4

Source: Statistical Yearbooks of the Slovak Republic.

4. Empirical Evidence of Economic and Social Effects

There are no studies that deal with the performance of co-operatives or employee-co-owned firms in the Slovak Republic.

Despite the widely held view that direct sales involving insiders led mostly to asset stripping and tunnelling, there is no empirical study on the effect of post 1993 privatization techniques on the enterprise performance. The only account is a case study by Djankov and Pohl (1998). They argue that the majority of large Slovak firms have successfully restructured even in the absence of foreign investors and government-led restructuring programs. Also, they showed that privatization to insiders through management buy-outs did not hinder restructuring of the firms since the new management invested into new technologies, looked for foreign partners and were ready to sell shares to outsiders to get necessary financial resources.

5. Conclusions

In 1989 the former Czechoslovakia had one of the smallest private sectors in the communist world, employing only about 1.2% of the labour force and producing a negligible fraction of the national output (all estimates are well below 3% of GDP). After the fall of the communism, the necessary macroeconomic reforms took place; however, they contributed to the split of Czechoslovakia in 1993. During these reforms a

privatization has started, yet its outcomes were realized after the split and therefore Czech and Slovak Republics followed slightly different paths. Nevertheless, in both countries there remained a small share of the GDP produced in the industrial co-operatives and the design of privatization was adverse to creation of significant employee ownership.

In sum, current development of employee participation is low, if not nil, and is virtually restricted to managerial remunerations. Other employees can also buy shares but in practice the volumes are low and not well recorded due to the fact that there is no special type of shares designed for employees. The prevailing form of ownership is either managerial or outside control. The development of employee participation was determined by the initial conditions that were set up during the privatization and the following political development. The overall development of private sector in Slovakia was not advantageous, if not hostile, toward employee participation; the emerged private ownership structure is dominated with external types of ownership. With a few exceptions, the employee participation takes place in the form of co-operatives. Since Slovakia share is in many aspects similar to the Czech Republic, we can assume that as in the Czech Republic, co-operatives are mostly agricultural or housing co-operatives.

The privatization in early nineties has brought in employee shares and these were used up to certain degree. A twist appeared in 1995, when all the privatized firms were required to issue 34% of employee shares. This requirement was abolished within half a year and the privatization law then only mentioned option to issue employee shares, not a requirement to do so. However, with exceptions, the employees did not really participated in managing the companies and trade unions were mostly focused on their classical goals – employment and wages. After 2001, due to the legal change, all employee shares as a specific category ceased to exist and all these shares were converged into ordinary ones or a priority type. As a result, there is almost impossible to trace the development since 2001 as the employees that hold shares of their company are no longer restricted in their sales or transfers. After the legal change, the only possibility these days available to a company is to offer standard shares for a discounted price.

While the co-operatives are being treated in a separate programme and are not subject to the mass privatization, the design allowed employee shares and ownership to emerge. Nevertheless, in both countries this option was not utilized and, consequently, almost no employee ownership has emerged from privatization later. However the major hindrance to the development of employee ownership under these conditions was unintended: A selling price was set to frequently inadequate book value. Since this method for evaluation relating mainly to the book value initially applied also to direct sales and the establishment of the minimal selling price in tenders it was most probably not discriminatory (see Kotrba, 1997, reprinted 1999, p. 135).[30]

In general, the environment for employee participation was more favourable than in the Czech Republic as the major difference driving this claim has occurred in the priva-

[30] Overvaluation due to inaccurate book value is still one of the major problems in balances of many companies, namely of Investment Privatization Funds.

tization design in Slovakia after the split of Czechoslovakia in December 1992. The employee shares as a method of privatization was more frequent in Slovakia than in the Czech Republic. Part of the difference can be also attributed to populist government of V. Mečiar, there are anecdotal evidences that employee shares were used as an appendix together with managerial types of privatization to assure smoother property transfer to closely-related parties.

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