

Czech Republic situation of EO

Dear Mr. Lukács,

It is already long time ago when we received your letter of March 20, 2000, concerning situation of employee ownership and participation in the Central and East European countries.

Unfortunately, there is no special legislation in the Czech Republic that would support or promote the employee share ownership. There is neither a stable source of information about development in the enterprises with employees' participation. Sorry for delay in our response, but we tried to find out some more positive information.

Not so long ago, the Parliament has even removed a provision from the Commercial Code that made possible for employees to gain 5 % of special (preferential) shares. On the other hand, since last year the councils of employees are mentioned for the first time in our Labour Code, but it has nothing to do with the employee share ownership (the council is necessary, when there is no trade union active in the enterprise).

Only last few months the perspective seems to be improving. Our organisation was asked by some people to draw up a sketch of a Bill concerning promotion of the employees' participation. It doesn't mean, that such a Bill should pass soon through the Parliament, but it is rather the beginning of a long way to the legal support of participation.

Our organisation was founded in 1990 and presented in the early ninetieths several proposals in order to promote participation of employees, but political climate was not favourable. Since then we tried to implement some ideas of the employee ownership in practice – with many obstacles on this way. That is why we'd need an international support and we welcome the establishing of EFES. We hope that we will be able to participate in the activities of the EFES in the near future.

Sincerely Yours

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As it was already said in the previous part of national report from the Czech Republic, the idea of employees' participation was in the beginning of the transformation fully suppressed not only in the practical life, but even in the area of information on possible privatization alternatives.

The principally negative attitude of the Government of that time to the employees' participation was manifested even by such comments as: "The ESOP are just Esop's fables" and later by a quiet information ban. When the 8th Conference of the International Association for the Participative Economy was held in Prague in 1996, it was ignored by the official Czech Government representatives, as well as by the Czech mass media.

Since then, some change is to observe: The European conference on Social Economy, held in Prague last year - for the first time in an East European country – was inaugurated by the Czech Prime Minister, in spite of the fact, that mass media continued to say nearly nothing about it.

At present, the employees' participation is supported by two parties forming the Government coalition (Social Democrats and Christian Democrats) and by one opposition party (Communists) in their programmes. However, the real conditions in the CR are not favourable, so far. The principal negative attitude towards any employees' activity, as it had been cultivated since the early nineties, has still its momentum. On the other hand, the "entrepreneurial" sector has not yet been stabilized and lacks the necessary confidence from the side of the employees.

The idea of employees' financial or proprietary participation is, as a rule, taken into consideration as a serious alternative just as a solution of "last resort" when the firm is facing a risk of bankruptcy and further closure. But any legislation supporting the employees' timely involvement does not exist yet; even worse - nobody misses it.

However, first signs of a change can be observed. Some of them are to be attributed to the necessity to adjust the Czech legislation to the EU standards, which are "participation-friendlier" (it is reflected for example in the new version of the Czech Labour Code). The second stream of impulses supporting a more intensive employees' involvement is coming from the supranational corporations operating in the CR. In their daughter companies, some participation principles, whose efficiency has been verified in their mother countries, are applied. However, in the dominating majority of cases, they are focused on a broad variety of financial participation schemes, applied to selected members of the management staff. Some initiatives are even coming from domestic firms, where methods of a decentralized control containing some self-management elements are applied.

The missing information on various participation options, as they had developed since the beginning of the past century, has generated a very unfavourable "climate" in the Czech economy: even the firms applying some elements of participation and registering their positive outcomes, don't see any motivation for advertising them. For these reasons, it is difficult to find any publicly accessible and verified information of our domestic Czech experience.

However, there is already some experience. A Moravian glass company (MSK) is a broadly and publicly treated example. MSK was a part of a larger glass producing complex, privatized in the early nineties. Later, the plant was to be closed in connection with the corporation's re-structuring programme. But this plant, located on the Czech border with Slovakia represented one of the scarce employment opportunities in the region. Such a closure could cause catastrophic consequences for the employees and their families.

As a first step, the employees - using in the beginning strikes and other "communication methods" - gradually made the owners change their original mind: The owners decided to sell the plant, not to liquidate it. Enjoying some political backing, a new corporation was established which is owned by the trade unions and some selected individual employees.

This deal got a rather broad publicity. The newspapers as well as specialized journals commented both the conflict between the employees and the owners and the onerous seeking of financial funds which culminated in the final trade unions' action: their financial contribution to purchasing the plant was substantial.

After several months' break in production, caused by the removal of stores and equipment which was implemented before the owners decided to sell the plant, the production was resumed again, utilizing the national programme for support of the small and medium sized enterprises. It enabled the local authorities to subsidize every job by 5.000 crowns (one third of average salary). The new management resumed the production with a reduced number of employees (250 compared with the original 450). Let's emphasize that such a quick recovery was spontaneously supported even by the former employees: they assisted at cleaning, maintenance and repairs. Thus, immediately after re-opening the plant, the previous volume of output was achieved. In the first week-end after re-opening the production, an "open-doors day" was arranged enjoying a wide publicity.

This is one of the rare publicly known successful attempts to rescue the bankrupting firms as result to the employees' activity. Soon, there appeared other attempts to use this experience. Unfortunately, it is necessary to say that the employees' participation and self-management have still remained an area of non-coordinated activities of individuals or of some ad hoc organized working groups.

The "Society for Self-management and Participation", a citizen's organization located in Prague and founded in 1990, tries to support such activities. It participated in the legislative initiatives and after the adoption of the privatization acts, which were not friendly to the employees' participation, the Society focused its activities to promote the participative methods on a smaller scale within the framework of an investment fund, monitoring the evolution of employees' participation in the world and examining the possibilities to apply some of these practices in the CR.

Some years ago, the Society elaborated a project which enables to slow down the process of liquidation of some plants if the employees could successfully take it over. Specific forms of such a social programme can be:

- purchasing the firm as an entity (including all the assets and liabilities), or
- purchasing the facilities of the firm or some of their parts from the owner within the framework of the bankruptcy proceedings.

The main steps are:

- establishing the employees' association utilising the proper legal form (co-operative, corporation limited etc)
- recruiting capable skilled managers
- setting up the necessary financial funds (using the state aid, namely the state employment fund, since the main target of the action is to retain jobs).

The minimal objective of such a programme is retaining the level of local employment (or spreading its reduction over the longer time span). But the evolution of further entrepreneurial activities is an optimal objective. Since we consider the self-managerial activities as one of the possible approaches to the solution of the unemployment problems, the framework for the application of the programme may extend in the future.

The Society tries to keep awareness of many forms of participation and self-management which can be used at different occasions and with different aims. We don't forget about cooperative forms which proved its stability in the Czech Republic, show good economical results and have positive impact on social involvement of workers and humanization of working conditions. On the other hand, the co-operative experience is specific one and we must look for suitable general forms of participation in all kind of companies based on other principles as well then co-operatives – it means in shareholder companies, public corporations, family firms etc.

In 2002, the Society elaborated a draft of the comprehensive "Employees' Participation Promotion Act" and submitted it to the legislative institutions of the CR. This draft refers, namely, to the legislation in force in the EU and to the experience gained in this area. For this reason, the draft of the Act focuses predominantly on setting up the broad framework for participation, not enforcing any particular participation form. The proposal stresses the combination of financial participation with the participation in decision making and in control of the enterprise.

The involvement of the employees is a question of general culture and a sign of general culture. The favorable climat for such a culture is in the best interest of the hole society, not only in the interest of individual enterprises or employees. That's why our proposal includes framework for financial participation, for managerial participation in form of employees council and for public support for the enterprises which understand the importance of participation for the hole economy, its balance and its perspectives.

We expect that after the accession of the CR to the EU, a more favourable situation may become a reality in this respect as a result of breaking through the still existing information vacuum in this area. For this reason, the Society prepares a basic information minimum on the topic "What can the employees expect from the accession of the CR to the EU" - focused on legislative and practical procedures that can be applied in case that both employees and employers are interested in introducing participative managerial methods.

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