

Employee Ownership in Slovenia at the beginning of the Millennium

Aleksandra Kanjuo Mrčela¹

February 2002

I. Introduction

An important part of the post-socialist transition of Slovene economy (as in other Central and Eastern European countries) during 90s was the process of privatisation. An important characteristic of the privatisation process in Slovenia has been high involvement of employees (including managers) in that process. According to the Agency RS for restructuration and privatisation (2000:88, 138) in the majority of privatised Slovene companies two methods of privatisation have been used: internal distribution of shares (in 1324 or 96% companies) and internal buyout (in 1253 or 91,39% companies). In 1324 companies analysed by the Agency for restructuration and privatisation »internal ownership« (of current and former employees, and employees' relatives) is dominant in smaller and labour intensive companies. The scope of internal ownership is important if it is analysed in terms of the number of companies in which it is present and the number of employees in these companies: 61,3% of analysed 1310 companies are majority internally owned. In these companies are employed almost a half (45,7%) of all employees in privatised companies. Companies with 30% and more internal ownership make up to 82,4% of all privatised companies and they employ three quarters of all employees (75,1%; Agency RS for restructuration and privatisation, 2000:145).

It is hard to estimate current changes and exact scope of involvement of employees in ownership structure in Slovene companies, because neither institutions (Ministries or relevant State Agencies) nor companies themselves monitor these changes systematically. Results of survey analysis based on research samples show that after the privatisation (or as a second phase of privatisation) share ownership in Slovene companies is concentrating (Simoneti et al, 2001)² and that involvement of non-managerial internal owners and state funds is decreasing while share of investment funds and managers is increasing (Prašnikar, Domadenik and Svejnar, 1999; Kanjuo Mrčela, 2001).

¹ Aleksandra Kanjuo Mrčela is Assistant Professor at the Faculty for Social Sciences, University of Ljubljana, Slovenia (aleksandra.kanjuo@uni-lj.si)

² According to Simoneti et al. (2001) until the end of 1999 the number of shareholders in Slovene companies privatised through mass privatization had been on average reduced by 40%.

II. Legal Framework: Current Legislation, Developments and Expected Trends

The existing scope of employee ownership is the consequence of the privatisation legislation (Law on Ownership Transformation of Enterprises, 1993) that put the decision on the privatisation method in hands of insiders (management and employees) and enabled employees to gain shares in companies in which they have been employed on favourable terms. Insiders had a possibility to buy shares in their companies with 50% discount and paying for it in 5 years instalments. For that purpose employees could use cash and ownership certificates that were distributed to Slovene citizens free of charge. Using a combination of internal distribution and internal buy out "insiders" (current and former employees) could reach a majority ownership share (60%)³. That result was achieved mostly in smaller and capital less intensive companies where employees could afford to buy substantial share of capital.

The legislation on ownership reconstruction put restrictions on trading with shares gained within the privatisation process: shares from internal distribution were "frozen" for 2 years and shares from internal buy-out could not be traded for 4 years. In spite of these provisions the first shareholders have been selling their shares (de iure transaction to take place when legally permitted). To avoid decline of employee ownership and non-transparent trading with shares some companies decided to limit trading using internal acts – "shareholders' agreements". Shareholders' agreements defined trade and voting rules: shareholders who signed these agreements could not sell shares individually to outsiders and they vote their shares in a block (through a proxy). Shareholders' agreements were easy to abandon and quite complicated to administer (proxy voting). Drawbacks of shareholders' agreements were pointed out by DEZAP⁴, Slovene Chamber of Commerce and the Association of Free Trade Unions⁵ who jointly introduced an amendment to the Law on takeovers in 1996. The aim of the amendment was to enable easier and legally more binding organization of employee owners. The amendment was not accepted, but the Government ordered the Parliament to prepare a separate law, which would provide for organization of small i.e. internal shareholders. The Law on takeovers (that was enacted in August, 1997) enabled small shareholders who gained shares through internal distribution and internal buy-out (in companies that did not use public offer) to use their shares as funding capital of a new legal entity – a proxy company ("družba pooblaščenka"). The aim of the proxy company is to organize small shareholders – their shares are voted in a block and trading with

³ According to the Law on ownership transformation of Enterprises 40% of company shares had to be transferred to three state funds (pension, restitution and development).

⁴ DEZAP (Združenje za lastništvo zaposlenih) – Slovene Association for Employee Ownership is an association formed in 1995 in order to promote employee ownership in Slovenia. DEZAP members are companies with employee ownership and other collective of individual members interested in employee ownership. DEZAP main activities are collection and exchange of information and experiences on legislation and best practices on employee ownership; lobbying for employee ownership friendly legislation; education of employee owners; creation of networks and collaboration with existing Slovene and international employee ownership networks and organizations. DEZAP is member of European Federation of Employed Shareholders (EFES).

⁵ Association of Free Trade Unions is the biggest Slovene trade union association.

shares could be organized and limited by stipulations of the proxy company's by laws. Small shareholders in some Slovene companies used the new possibility of organizing, but certain drawbacks prevented a more spread use of the proxy company. The main difficulties are: administrative and financially demanding founding, lack of tax breaks or stimulations and the problem of double taxation, organization of small shareholders in companies which could not use the proxy company, demanding procedures of voting, lack of possibilities for sustaining of employee ownership (as profit sharing, gain distribution), problem of internal market liquidity (Lednik, 2001).

There still exists a need for a new legislation, which would support employee ownership in two important aspects:

1. Enabling easy and inexpensive ways of organization of the existing (and emerging) employee owners,
2. Enabling spreading of employee ownership.

Ad 1) Experiences from Slovenia and other countries show that it is impossible to sustain a considerable scope of employee ownership if it is unorganised and held exclusively by individual shareholders. Small shareholders should have a possibility to organize (a part of) their ownership in order to balance in the best way their individual interests (as individual gain, liquidity of shares) and common interests (as long-term ownership stability and sustaining of employee ownership). Organisation of small individual shareholders enables also transparent trading with shares as well as organized voting.

Ad 2) The emergence of employee ownership in Slovenia was enabled by privatisation legislation. After the conclusion of the process of ownership reconstruction in Slovene companies there is lack of effective legal support for renewal or increase of employee ownership.⁶ As many of existing employees are selling their shares we expect the decline of the employee ownership in the future. The bill on profit sharing, which would be a legal basis for new employee ownership, was prepared and sent to the Parliamentary procedure already in 1997, but the law has not yet been enforced. At the beginning of 2002 we are witnessing renewal of public debate concerning the bill and there are some indications that it will be harmonised with the relevant recommendations of the EU and enforced in the near future.

III. Current research on employee ownership

After ten years of post-socialist transition and several years after the conclusion of the process of privatisation in most Slovene companies there are already some experiences with different forms of ownership as well as with functioning of instruments of corporate

⁶ The Law on Commercial Companies and the Law on Minimal Salary provide opportunities for profit and gain sharing, but the decision on profit sharing is in hands of shareholders and because of a lack of any tax stimulation gain sharing is an expensive way of employee stimulation and thus it is rarely used.

governance (and participation of employees in corporate governance)⁷. Employees in most Slovene companies that went through privatisation process participate in both ownership and governance. It is expected that the ownership participation of employees will decrease in future and there are also opinions that codetermination rights should be restricted. Future changes depend among other things on attitudes of important corporate actors towards employee participation. Because of that we conducted **an empirical survey in the spring of 2001 among Slovene managers and trade union representatives**. We posted questionnaires to managers in 300 Slovene companies with the highest income in 2000 (according to the data base of Chamber of commerce of Slovenia) and to 300 trade union representatives (from the Free Trade Unions – the biggest trade union in Slovenia). We got back **41 questionnaires from managers and 44 from trade unionists**.

Both managers and trade unionists came mostly from big companies in different activities (manufacturing, services). Among managers who responded 31 were males and 10 were females aged 42 to 71 (37% were in the age group 52 to 62). The managers had university degree (51%), held BA or PhD (20%), or finished higher (20%) or secondary school (2%). Among trade unionists 21 were men and 17 women. They were from 45 to 72 years old (48% in the age group from 45 to 55). They had secondary (38%), vocational (25%), higher (14) or university (7%) education.

We tested our respondents' **opinions on employee ownership and on existing forms of codetermination** (works' councils, workers' directors and employee's representatives on supervisory boards). Research results indicate **high consistence of attitudes of managers and attitudes of trade unionists**. There was a great degree of similarities in the responses of the two sub-samples. All forms of employee participation were evaluated mostly positively. Employee ownership was seen as a positive result of privatisation in their companies and as an important ownership form in Slovenia and the world.

III. 1. Ownership structure and recent changes

Although shrinking, employee ownership is still present in the majority of our respondents' companies. **More of 80% of respondents reported existence of employee ownership in their companies**, but in the majority of cases (in 47% trade unionists' companies and 50% managers' companies) it is participation of employees amounting less than 25% of share capital.

More than 60% of respondents reported changes in ownership structure after the end of privatisation. Those changes were mostly in the direction of decreasing of shares of state funds and small shareholders and concentration of ownership. 44% of managers

⁷ Employees in Slovene companies could in accordance with the Law on Co-determination, have representatives on the Supervisory board (at least one third in smaller and at least a half in companies with more than 1000 employees).

estimated those changes as positive and only 12% as negative, while 36% of trade unionists estimated changes as positive and 27% as negative. More than a third (37%) of managers and more than a half (54%) of trade unionists reported a decrease of employee ownership in their companies.

In more than a half of companies managers participate in the ownership and in less than a half of cases members of supervisory boards also have ownership shares in the companies. In a number of companies (42% of managers' and 34% of trade unions' companies) exist an internal fund of shares, but it is used for the distribution of shares to employees only in a small number of companies (12% of managers' and 7% of trade unions' companies).

We asked our respondents to estimate future changes in the ownership structure of their companies. Managers mostly think that the structure will stay the same (29%) or that ownership will concentrate in hands of outside shareholders (27%). Same two answers were chosen by trade unionists with almost the same percentages (27% and 25%). More managers (12%) than trade unionists (2%) responded that employees' ownership participation will increase in the future. Managers described the ideal ownership structure as a combination of employee ownership, ownership of strategic partners and managers. While trade unionists emphasized employee ownership more, they also mentioned strategic and foreign owners.

Almost one third (32%) of managers and 48% of trade unionists reported that there is a possibility of profit sharing of employees (stipulated by companies' acts and by-laws), but it is used only in 10% of managers' companies and 11% of trade unionists' companies.

III. 2. Assessment of employee ownership

When defining employee ownership both managers and trade unionists have chosen the following two answers:

- A consequence of the Slovene model of privatisation that will decrease in importance as ownership form (58% of managers and 57% of trade unionists),
- An ownership form that is important in both Slovenia and the world and represent an efficient method of motivation and rewarding of employees (46% of managers and 36% of trade unionists).

Only 10% of managers and 16% of trade unionists saw employee ownership as "a fair compensation to employees for work done in the former system. The smallest part of our sample (only 5% of managers and 7% of trade unionists) chose a negative definition of employee ownership – as "a negative heritage of former socialist system that prevents the transition of Slovene economy to effective market performance".

We asked our respondents whether employee ownership represents a comparative advantage of their companies or if it is a disturbing factor that hinders realization of the company's business strategy. More managers (39%) answered that employee ownership is a comparative advantage than a disturbing factor (only 7%). Trade unionists also choose the first answer (43% of them) much more often than the second one (only 2%).

Employee owners were described mostly as a group of owners that is long term oriented and interested in success and survival of companies. That was the answer given by the majority of managers (59%) and 43% of trade unionists. Only 20% of managers thought that employee owners are short-term oriented and interested only in immediate benefits. It is interesting that more trade unionists (25%) chose that answer when describing employee owners.

In spite of positive attitudes towards employee ownership our respondents reported a low extent of organizing of employee owners (in proxy companies) and low interest in organizing in the future. The respondents thought that employee ownership should be supported - **majority of managers (51%) and trade unionists (73%) answered that employee ownership should be supported in their companies.** Both managers and trade unionists agreed that the management is the most responsible for the support of employee ownership.

Both managers and trade unionists positively evaluated the instruments of employee participation which are widely present in Slovene companies (works' councils and employee representatives on the Supervisory board). Workers directors who are active in only a small portion of companies were also evaluated positively.

III. 3 Social Capital in Slovene Companies

Social capital is currently a widely used concept in economic sociology. It interprets economic phenomena as socially influenced and defined. It stresses the importance of cooperation, trust and social networks as factors of economic efficiency. We used the concept of social capital in the analysis of the process of privatisation in Slovenia (Kanjuro Mrčela, 2001). As we think that there is a connection between the existence of employee ownership and social capital, we asked our respondents to evaluate some indicators (and components) of social capital in their companies: identification of the employees with their companies, level of trust between the employees and management, the quality of cooperation among the employees and among the employees and managers.

The managers estimated the intensity of **employees' identification** with companies as high (42%), medium (39%) and very high (10%). The trade unionists estimated the identification of employees with their companies as medium (52%), high (14%) and very high (14%).

The trade unionists estimated the level of **trust among employees and managers** as medium (52%) and low (27%) and managers as medium (51%) and high (27%).

The managers described the **cooperation among employees** mostly (66%) as motivated by the employees' interest in improvements and their contribution to higher quality. A part of managers (27%) described employees' cooperation as sufficient only for an uninterrupted work process. The majority of managers (59%) estimated the **cooperation among the employees and managers** as very intensive and 37% as limited only to necessary contacts (giving orders and reporting).

The trade unionists were more critical in their evaluations of cooperation among the employees – a half of them (50%) think that the employees cooperate to the extent that is sufficient only for an uninterrupted work process. A large part of trade unionists (43%) nevertheless agree with opinion of the majority of managers that employees' cooperation is motivated by employees' interest in improvements and their contribution to higher quality. The trade unionists were also more critical than managers in their estimations of cooperation between employees and managers – a majority (55%) estimated the cooperation among employees and managers as limited only to necessary contacts (giving orders and reporting) and 34% as very intensive.

It is interesting that trade unionists were more critical and reported a lower level of indicators of social capital in their companies than managers. That could be partially explained by the nature of two sub samples. The managers come from companies that feature among 300 Slovene companies with the highest income (business success both influences and is influenced by good organisational relations), while the trade unionists' sample did not depend on the company's success but on the trade union present in it. Secondly, we could expect that managers who decided to answer our questions are more supportive of employee participation than managers on average and that probably results in a higher level of social cohesion and social capital in their companies.⁸ A part of the explanation is also that managers are more likely to give socially expected answers on social relations in their companies and trade unionists are more likely to be more critical of the situation in their companies.

Our respondents reported relatively high indicators of social capital in their companies. That could be a basis for further research. We did not measure how much the indicators of social capital correlate with the scope of employee ownership in these companies because the scope of employee ownership was a consequence of the size and capital

⁸ That could help to understand other answers as well. Having in mind a probability of more than an average inclination of managers in our sample towards employee ownership and participation it is also important to stress that the fact that 41 managers of big and successful Slovene companies answered the questionnaire (from the sample of 300 managers) indicates a relatively high interest of managers in this question.

intensity of companies being privatised (and not only wishes of managers and employees).⁹

The high consistence of answers given by managers and trade unions regarding employee participation (in ownership and governance) is by itself an indicator of a low level of "we and them" organisational culture, which we believe to be a consequence of the existing social capital in companies.

IV. The future of employee ownership in Slovenia

There is more and more empirical data in Europe and the USA that supports desirability of different forms of employee participation and pulls down long-lasting stereotypes concerning incompatibility of high employees' participation and economic efficiency.¹⁰ Some arguments in favour of employee ownership in Slovenia are universal (based on experiences and good practice in both Slovenia and other countries). Other arguments are more specific and connected to Slovene history (of economic development and industrial relations) and specifics in the formation of social capital in Slovene economy. It would be a mistake to neglect the already existing inclination towards cooperative and trustful relations between managers and employees (weak "we and them" feelings) and identification of employees with companies in Slovenia that resulted in a high scope of employee ownership.

In spite of current shrinking of employee ownership, organisational actors in Slovene companies still report positive attitudes toward employee participation in both ownership and corporate governance. We estimate that is in concordance with current trends of economic and organisational changes that build on the active role of employees as important subjects of economic life. Positive attitudes towards employee participation (especially managers' attitudes) are certainly a positive factor of sustaining of employee ownership in Slovenia. But in order to sustain a substantial scope of employee ownership positive attitudes should be accompanied with a supportive legislation. Legislative promotion of employee ownership (promotion of tax supported profit sharing schemes and collective forms of employee ownership) is seen as a factor of economic improvement.

V. References

Agencija RS za prestrukturiranje in privatizacijo. 2000. Lastninsko preoblikovanje slovenskih podjetij. Ljubljana: Agencija RS za prestrukturiranje in privatizacijo (Agency

⁹ Analysis showed that employees and managers in companies that did not achieve high employee ownership participation were also interested in buying more shares during the process of privatisation, but the capital value of companies was too high (Simoneti et al., 2001).

¹⁰ Based on a part of these empirical data the European Union promotes participation of employees in profits and business results since 1992.

RS for restructuration and privatisation, 2000. Ownership Reconstruction of Slovene Companies)

Kanjuo Mrčela, A. 1999. Lastništvo in ekonomska demokracija (Ownership and Economic Democracy). Ljubljana: FDV

Kanjuo Mrčela, A. 2001. Socialni kapital in lastniške strategije v slovenskih podjetjih. (Social capital and Ownership Strategies in Slovene Companies). In Stanojević, M. (Ed.) Uspešna nezrelost. (Successful Immaturity). Ljubljana: FDV

Kanjuo Mrčela, A. 2001a. Percepcija lastništva zaposlenih v Sloveniji. (Perception of Employee Ownership in Slovenia). Survey results presented at the Seminar The Future of Employee Ownership in Slovenia, Ljubljana, 8th November,

Lednik, B. 2001. Lastništvo zaposlenih v Evropski uniji in v Sloveniji (Employee ownership in European Union and Slovenia). Paper presented at the seminar "The Future of Employee Ownership in Slovenia. Ljubljana, November 2001.

Prašnikar, J., Domadenik, P. and Svejnar, J. 1999. Prestrukturiranje slovenskih podjetij v poprivatizacijskem obdobju. (Reconstruction of Slovene Companies in the Post-privatisational Period) in Prašnikar, J. (Ed.). 1999. Poprivatizacijsko obnašanje slovenskih podjetij. (Post-privatisation Behaviour of Slovene Companies) Ljubljana: Gospodarski vestnik

Simoneti, M., Böhm, Rems, M. Rojec, M. Damijan, J.P., Majcen, B. 2001. Secondary Privatisation in Slovenia: Evolution in Ownership Structure and Company Performance Following Mass Privatization. Case Reports. Warsaw: CASE