

FACTS ABOUT EMPLOYEE SHARE OWNERSHIP IN THE CZECH REPUBLIC by Professor Zdenek Srein, KSLP

1) A short history of the employee ownership (EO) in the CR since 1990.

Some economists and politicians think that after 1990 – in connection with the privatization of the then state owned firms –we faced an unique opportunity for establishing the EO. However, such an idea failed in the CEEC in general and in the Czech Republic, in particular.

In the CR (and in Czechoslovakia until the split in 1993), the strategy of the „shock therapy“ won, accompanied by the prevailing conviction that the inefficient system of state ownership (taken as identical with any form of collective ownership) is to be substituted by its contrary – by a system strictly based on individual ownership and responsibility.

The privatisation strategy was based on several simple principles (the aspects relevant for the EO are mentioned only):

1. For every firm, competing privatization projects were to be submitted to the government authorities. In every project, the bidders were obliged to reserve 10% of the equity for sale to the employees. It was up to the government to select the most favourable bid (the price was not necessarily the exclusive criterion).
2. At the same time, the voucher privatization launched - every citizen was entitled to buy vouchers at a negligible price (1000 Czech crowns) and to purchase (against voucher points) shares of the privatized firms (a given portion of shares was reserved in most privatization projects for allocation via vouchers).
3. Numerous „privatization investment funds“ (PIF) were established; the voucher holders could use their vouchers either for direct purchases of the shares of individual firms, or to deposit their vouchers in the IPF. As a result, some 60-70% of the holders deposited their vouchers in the PIF-s.

Some of the IPF established at that time intended to utilise the voucher concept as a tool for establishing the employees' share ownership. Unfortunately, this original intention proved as impossible for several reasons:

- The upper limit of 20% of a privatized firm's equity could be held by one PIF. Moreover, another limit was imposed : a maximum of 10% of the PIF's assets could be allocated in one company.
- The value of the vouchers owned by one citizen was almost negligible in comparison to the value of the firm to be privatized. Consequently, even provided that all the employees of a firm had allocated their vouchers in their firm, it would represent some hundreds shares compared with hundreds thousands of shares acquired by other investors.
- As a rule, restructuring was the first new owners' action. Very often, a privatized company was split in smaller units et cet. Consequently, the employees did not trust the management and for this reason they allocated their vouchers in other firms or – more frequently – in the PIF.
- The less, obviously, they were willing to purchase the shares of their firm against cash payment. In most cases, the above mentioned 10% of shares reserved for the employees have not been sold to them – they did not trust their own firm. On one

hand, the privatisation regulations made it possible to sell such shares at a lower price (compared with its market level) to the employees; on the other, the resulting price rebate had to be reimbursed from other firm's resources without any impact on the firm's taxes. In other words: neither the employees nor the management were encouraged to support the purchase the shares of the „their“ firms to the employees.

2) Employee ownership in the Czech Republic today.

Nothing has changed. The tax regulations neither recognize nor support the EO at all. The Czech social-democratic government established in 1998 had declared its dedication to support all the participation forms including the EO, but nothing has happened. Perhaps, due to the current set-up of the coalition (a mix of social –democratic, Christian and liberal politicians disposing of just a 1-vote majority in the Parliament), the idea of the EO has been set aside. As matter of fact, the general idea of participation is simply ignored in the public.

The idea of EO, however, is not dead. In some firms (namely SME-s), the management sold some shares to the staff; as a rule it was one of the methods how to rescue a firm in difficulty. On the other hand, there are some companies using the EO as an instrument stimulating efficiency. Our Society is collecting information, but in a very strange environment. The representatives of the companies applying the EO have rejected any publicity. They are afraid of hostile take-overs – this is their main argument.

3) The relevance of the EOLE programme in Czechia.

The EO will find its roots in Czechia, too. In my opinion, three preliminary conditions have to be met:

- The national economy and the society in general are stabilised; this means, for my country, that the transformation period has come to an end and the economic environment is stable (monetary and banking system, rule of the law, the people feel safe and believe that the society will evolve in such a safe way).
- Then, if a firm faces difficulties and the employees are willing to contribute to the restructuring programme.
- Since the employees have confidence in the general viability of the general social system as a whole, they are more prepared to share the fate of their firm in various forms of participation, including EO.

Consequently, the Czech Republic will be (in the near future, let us hope) the beneficiary of the EOLE outputs, both teaching programmes and information on facts and best practices in other countries. Unfortunately, the Czech Republic cannot offer any inputs to EOLE now.

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