

**The Interdepartmental Action Programme on Privatization, Restructuring
and Economic Democracy**

**Privatization in Slovakia: The role of
employee and management participation**

Dane Brzica

Note: Working Papers are preliminary documents circulated informally in a limited number of copies mainly to stimulate discussion and critical comments.

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Preface

The three case-studies by Béla Galgóczi and János Hovorka on Hungary (IPPRE-11), Rainer Schliwa on Poland (IPPRE-2) and Dane Brzica on Slovakia (IPPRE-12) form the contribution of the ILO's Social Financial Unit to the ILO's Action Programme on Privatization, Restructuring and Economic Democracy 1996-97. This report is the case-study of the employee buy-out process in Slovakia.

But what does privatization have to do with finance? On the surface seemingly little since a transfer of ownership does not always entail a financial transaction; even where former government-owned assets are sold, a functioning financial market is usually perfectly capable of organizing and handling the transactions. In actual fact, however, privatization has a great deal to do with the ease with which capital can be raised to facilitate ownership transfer. As it happens, financial markets in most Eastern and Central European economies are still far from competitive and banks themselves are still state-owned or state-controlled.

This affects different groups of investors in different ways. A category that is seriously hampered is the workforce of former state-owned enterprises when it wishes to organize and implement employee and/or management buy-outs.

This is so for a number of reasons: employee's personal financial resources are very limited; financial needs go far beyond acquisition and also concern the cost of replacing machinery and equipment and other new investments; there is no employee managerial track record; and often there also are risks of a break-up among employee groups participating in the buy-out schemes.

While it is true that in some countries special loan facilities to the workforce (like E-loans in Hungary) are made accessible on "soft" conditions — subsidized interest rates, grace periods and long repayment schedules — demand often far exceeds available resources.

The ILO strongly supports privatizations when they can optimize economic efficiency and social equity as can be the case in privatizations which feature worker/employee ownership schemes. For this reason, and — encouraged by a tripartite conference in May 1993 in Bratislava — the ILO commissioned case-studies to explore the involvement of trade unions and employers' organizations in Hungary, Poland and Slovakia within such employee buy-out schemes. The special focus was the role (potential or actual) of the social partners in facilitating access to financial sector institutions. The three papers analyse the role of the social partners in employee buy-outs, describe different enterprise cases in detail and also outline the possible involvement of other actors in the process, such as consultancy firms, associations and other bodies of civil society.

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Max Iacono,
Action Programme Coordinator for Privatization,
Restructuring and Economic Democracy,
International Labour Office, Geneva

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1. Introduction

1.1 Overview of the privatization process in Slovakia

EBOs, MBOs, EBO/MBOs etc. are not unusual forms of privatization in Slovakia. From an economic point of view many arguments can be advanced for or against employee/management participation in privatization.¹

The privatization process provides opportunities for employee ownership that under normal circumstances would not exist. Employees can participate also in the privatization of highly profitable firms and big firms, which is otherwise not always the case. The standard classification of buy-out techniques (i.e. MBO, EBO, MEBO) is difficult to apply in Slovakia. The main reason is that the definition of employees includes managers and employees, which are distinct categories in standard texts on buy-outs. In Slovakia, the amalgamation of these two categories is also supported by certain interest groups.² The term "employee ownership" is sometimes used by politicians to gain some political advantage or to facilitate privatization by managers.

This political, point-scoring connotation may explain why managers and trade union representatives are reluctant to provide information about individual privatization cases. One case is Slovenské závody technického skla a.s. where 67 per cent of the shares were bought by Technické sklo, s.r.o., a limited liability company, established by the management of SZTS a.s.

Especially sensitive are cases where privatization is not yet complete and where external parties could possibly become interested in privatization schemes.

1.2 Organization and content of the study

The following study by Mr. Dane Brzica of the Institute of Economics, Slovakia Academy of Sciences, is based on research into four types of institutions, which have been directly or indirectly (as support bodies) involved in privatization by EBOs, MBOs or a combination of both methods. Firstly, the nine firms selected have completed privatization or the process of privatization. All the firms mentioned have substantial ownership by managers and employees.

In the majority of cases, a combination of MBO/EBO methods was used. The sample selection was based on: (1) available information about privatization by one of MBO/EBO, MBO or EBO methods; (2) range of activities; and (3) willingness to provide information.

Secondly, managers of three commercial banks have been interviewed: VÚB a.s. Bratislava, one of the biggest Slovak banks, L'udová banka a.s., Bratislava (a bank controlled by a foreign owner, namely by Volksbank Austria) and Pol'nobanka a.s. Bratislava.

The third type of institution reviewed is trade union confederations, like KOZ SR (Konfederácia odborových zväzov SR — Confederation of Trade Union Associations of the Slovak Republic), a trade union association OZ KOVO, which is the biggest sectoral trade union association, namely in engineering, and OZ CHÉMIA, the trade union association of the chemical industry.

¹ The possibility of using different forms of employee ownership had been discussed extensively among economists (e.g. J. Svejnar, M. Zelený).

² Enterprise management often consider themselves part of an employees' group. This enables managers to create "employee companies", where in fact they hold the majority stake. Nevertheless, as will be shown later, a proposal from OZ KOVO (trade union association) concerns an employee joint-stock company that operates with the category employees to mean the sum of top managers, middle managers and other workers. So the main criterion is not a management:employee ratio, but the fact that the share of the employee joint-stock company in the equity of the privatized enterprise has to exceed 51 per cent.

Lastly, three associations of employers' organizations were interviewed: the Asociácia zamestnávateľských združení a zväzov SR (Association of Employers' Associations of the Slovak Republic), Zväz hutníctva, ťažobného priemyslu a geológie SR (Association of Metallurgy, Mining Industry and Geology of the Slovak Republic) and Asociácia sklárskeho a bižutérneho priemyslu (Association of the Glass and Jewellery Industry).

A promotion agency established to support EBO/MBO privatization was also visited. This body has been involved in an advisory capacity in privatization through EBO/MBOs, its role being limited to providing legal services. It was established by SDL, a political party of social democratic leanings.

2. Legal framework

2.1 Overview

Generally speaking, the legal regulation of employee ownership is given in the Business Code (Obchodný zákonník), which defines who can be an owner of employee shares. Owners can be only company employees and retirees. There are also trading limitations on these shares. The law allows their transfer only among company employees and retirees. The following possibilities exist for employee ownership:

- (a) sale of the enterprise or part of it to the management of privatized enterprise;
- (b) sale of the enterprise or part of it to the employee joint-stock company;
- (c) direct sale of shares from the National Property Fund to employees;
- (d) subscription of employee shares.

The Ministry of Privatization worked out principles according to which employees can participate in the privatization of enterprises ("The Principles for employee participation in the privatization of enterprises"). The instrument was adopted by the Government on 23 May 1995. The Ministry of Privatization has announced several times that it wants "to ensure higher social acceptability of privatized enterprises".

An employee joint-stock company is considered a company, established according to the Business Code (Chapter 154 and others). There are few specific provisions regarding privatization by employees. According to the "Principles", its shareholders have to be predominantly (70 per cent of equity) employees of a fully or partially privatized enterprise if and when employees are offered the possibility to become shareholders. The remaining 30 per cent could be offered to external persons. There was no general requirement that all employees must be shareholders of employee joint-stock companies.

According to the "Principles", employee companies should have a pre-purchase right without competition. The basic purchase should not exceed the market price. Financing for the first instalment should be acquired from a bank and the rest should be repaid according to the agreement (i.e. from retained profits). To be a shareholder does not automatically guarantee a workplace in a privatized company.

Share ownership is advantageous for employees only if the purchase acquisitions are affordable and do not create an additional burden. The Business Code permits companies financially to support future owners of shares up to 5 per cent of total equity.

The following example shows some of the problems with employee shares. Because of similar situations between the two republics, we use here a case from the Czech Republic where more data are available in this particular area.

Box 1

Problems with employee shares: Tradeability

According to one of the amendments of the Act on large-scale privatization, companies in the Czech Republic could buy out employees' shares until 6 February 1995. There was interest only in shares traded at the Prague stock exchange at above their nominal value (Kč1,000), the price at which the shares had been sold by the National Property Fund (NPF). Of a total Kč5.1 billion there was interest only in 1.86 billion shares. This conversion of employee shares into ordinary shares turned out to be more difficult on the capital market than envisaged by the NPF.

Source: Adopted from Brzica, D. (1995)

The large-scale privatization Act (Act No. 190/1995 Coll. of 6 September 1995, complementing Act No. 92/1991 Coll. on the conditions governing transfers of state-owned

property) states that trades unions should express their views on the privatization project before its submission to a potential buyer.

Other paragraphs relate to the involvement of employees in privatization. The privatization authority makes it the obligation of the acquirer to ensure employee participation in the privatization process:

- (a) by allowing for employee shares of at least 10 per cent of equity, if the acquirer is going to hold more than a 50 per cent share of equity; or
- (b) by enabling employees of privatized enterprises to acquire a minimal 34 per cent stake in the equity of the acquirer.

The basic principle in both cases is that all employees of a privatized company must have the possibility of participating in its privatization. There are several drawbacks, for example, that employee involvement in privatization would be limited to cases where more than 51 per cent of shares are sold. In addition, the second option (b) is only possible if the new owner of the privatized property is a joint-stock company. If it is a limited liability company then the second option for employee participation is possible only where all owner-employees are fewer than 50 in number because, according to the Business Code, limited liability companies cannot have more than 50 associates.

2.2 Structure of privatization project

According to the privatization laws there are certain prerequisites to be met before a privatization project can be prepared.

1. Identification: name of enterprise and specification of assets destined for privatization ("privatized property").
2. Information on how the privatized property was acquired by the State.
3. Specification of assets not useable for business.
4. Valuation of privatized property.
5. Settlement of claims.
6. Determination of its legal form.
7. In the case of a joint-stock company, determination of shares distribution, types of shares and role of vouchers, if any.
8. Specification of price and payment conditions.
9. Transfer of industrial or intellectual property if these rights are not the property of the enterprise to be privatized.
10. Time schedule.
11. Business plan.
12. Information concerning potential buyers.
13. Data on present and expected market position of the enterprise.
14. Information on number and qualification of employees.

Act No. 60/1994 Coll. amending Act No. 92/1992 Coll. adds to the list of information required for privatization projects and expands the level of authority of the Ministry of Privatization. The Act also establishes penalties for not meeting the obligation to provide relevant information to those preparing the privatization project. A decision-making process on the privatization project is specified (Erben, P.; Novák, P., 1995).

Naturally, most of the information lay with the company management; this was a major lever in the privatization "battle" involving competing bids. In contrast, employees have a limited capability for dealing with such projects. It is not easy for employees to prepare projects, obtain

sufficient capital and build up business and lobby contacts independent of management; and it is only in an alliance with management that they could face the competition with outside bidders.

2.3 Sequence of privatization steps

The following explains how the privatization process in Slovakia is organized. This should help in understanding the various problems linked to the involvement of various privatization actors.

The sequence of steps in an EBO and/or MBO is as follows:

1. Discuss proposed method of privatization by employee ownership at the Ministry of Economy of the Slovak Republic and at the Ministry of Privatization.
2. Discuss conditions of privatization — level of required investments, schedule for repayment of the first instalment.
3. Draw up an economic feasibility analysis of privatization.
4. Inform enterprise employees about the method of privatization, as well as the trade unions and the supervisory board.
5. Order a valuation of the enterprise.
6. Adapt the privatization project to the proposed form of privatization — for direct sale to a joint-stock company, founded by employees of the enterprise.
7. Work out the share distribution according to individual groups of employees — including conditions for share subscription.
8. Distribute application forms for share subscription.
9. Select founding group members.
10. Draw up proposed founding document and statute of joint-stock company.
11. Discuss with top managers and the unions.
12. Draw up proposed share subscription and discuss it with top management and the unions.
13. Invite share subscription.
14. Discuss with bank the possibility of obtaining credit for the first instalment.
15. Convene and hold constituent shareholders' meeting.
16. Ask for registration on the enterprise register.
17. Submit the proposal for privatization to the Ministry of Privatization for approval.
18. Upon approval of direct sale, conclude with NPF an agreement about the sale of state enterprise.

In the first phase, privatization projects are prepared: (a) as a compulsory requirement to be met by the state enterprise under the law (basic privatization project); (b) as bids from physical or legal persons competing for the privatization project; and (c) as letters of interest from physical or legal persons.

In the second phase, all bids are evaluated by the founding ministries. At this stage, negotiations among interested investors (including the management or employees of the state enterprises) take place.

At the next stage, the Ministry selects a bid and submits it to the Government for approval (in the case of a direct sale) or to the NPF for implementation. Bodies involved in providing expertise in this phase of the process differ with changing governments.

The final step relates to project implementation by the NPF. The NPF either converts state enterprises into state joint-stock companies or sells their shares to new owners.

Two model cases of privatization by MBO/EBO are presented below:

Box 2
Privatization by MBO/EBO

First case: ELV.S Senc

The National Property Fund created a state joint-stock company and sold it to managers and employees. 61 per cent of the shares are owned by the ELV.S employee joint-stock company. The other shares are available to other investors.

2nd case: Podnik servisných a sociálnych služieb Trnava

This case is an enterprise in the hands of the State; it will probably be sold to an employee joint-stock company STAVEXPORT, Trnava. This is a property sale as opposed to the sale of shares as in ELV.S.

Employee joint-stock companies can participate in practically all privatization methods (namely public competitive tender, public auction, direct sale or prior voucher privatization) either directly or indirectly.

The following presents the pros and cons of employee joint-stock companies:

- employees of enterprises to be privatized are in a privileged position because they can also participate in voucher/bond privatization like all other citizens;
- “employee joint-stock company” is a vague concept; there are many different types of employee ownership;
- the distribution of shares between management and other employees is a problem and a source of disputes;
- employee ownership schemes usually have little own resources and must go into debt to buy, which hampers investment in plant renovation;
- in direct sales, it is difficult to set an equitable share price;
- management may be induced to run the company at a loss merely in order to buy the enterprise cheaply through an employee joint-stock company.

3. Case-studies

3.1 Baňa Dolina, a.s.

Baňa Dolina a.s. is a joint-stock company mining brown coal. It is located in Veľký Krtíš district which is characterized by high unemployment — over 20 per cent. The company is a supplier for the power plant Nováky, for enterprises and households. Baňa Dolina has 1,700 employees, i.e. roughly 20 per cent of the workforce in the district.

In September 1993, when Baňa Dolina was included on the list for large-scale privatizations, the management, after consultations with employees, decided to establish an employee share company which would apply for the purchase of the mine for a symbolic Sk.1. Ninety-five per cent of the company employees supported the idea.

In May 1994, the Ministry of Privatization proposed reserving 97 per cent of shares for voucher privatization and 3 per cent for a restitution investment fund. As employees were against this decision, they mobilized the support of the founder of the company and the trade unions. The distribution scheme subsequently changed several times. In June 1994, it was as follows: 46 per cent for vouchers, 3 per cent for restitution investment fund and 51 per cent for direct sale. Another change occurred in October 1994 when the Ministry of Privatization decided to maintain the 100 per cent stake of the NPF. May 1995 brought yet another new decision: 46 per cent should be given over to voucher privatization. Later on, the Ministry of Privatization decided that a direct sale would be organized on the basis of competitive tender. In this process 63 per cent of shares were set aside. The result of the bid selection was that the NPF decided to sell 63 per cent of shares of Baňa Dolina, a.s. to the employee joint-stock company Dolina Veľký Krtíš established by 35 employees of Baňa Dolina. Later on, 1,411 employees out of 1,500 employees subscribed to shares. The ratio of founder shares to new subscribers is 31:69 per cent.

In the whole process, the role of the unions was evident e.g. the share subscribers were paid from the company welfare fund upon approval by the trade union organization. The employee joint-stock company agreed (after consultation with the unions) that employee participation in the company would be maintained and encouraged through the union organization.

3.2 Pivovar Stein š.p., Bratislava

This former state enterprise operates in the food industry (alcoholic beverages) and was established in 1873. On 1 April 1990, it became an independent state enterprise.

Initially, when the Restitution Act was passed, the former private owners demanded the restitution of their property. As they did not meet all the necessary conditions, the Ministry decided to privatize the enterprise.

The first transfer (restitution) occurred on 30 September 1991, with a soft drinks plant and a total workforce of 23 employees. The second transfer (sale) was in October 1991 (another plant with 27 employees) and the third one in March 1992 concerned 13 employees. In September 1995 the state enterprise Pivovar Stein š.p. Bratislava (brewery) was privatized at a purchase price of Sk.200 million to s.t.e.i.n., a.s. Bratislava, a management-employee joint-stock company. The share distribution was as follows:

- each employee = one share with a nominal value of Sk.1000;
- five top managers (excl. CEO) = 23 per cent of shares;
- CEO = 28 per cent of shares.

Its shares had been subscribed in May 1995 by the employees of the then state enterprise Pivovar Stein, š.p., Bratislava. The company s.t.e.i.n. decided to apply for the acquisition of 97 per cent of shares of the brewery. The employee-owned company, however, was not alone:

28 potential buyers were also interested; but largely because of advantageous financing conditions offered by a bank. The s.t.e.i.n. company won the bid.

In this case there had been several discussions between management and the unions concerning the privatization process. Trade union demands concerned technicalities such as extending the date for subscription of shares, but not fundamentals such as possible lay-offs etc. Only a small minority of employees (approximately 40) did not participate in the share subscription. In this case, the Government actively supported the MBO/EBO.

A representative of the top management admits that it wants to have the majority of shares, otherwise it would not be possible to take business decisions.

The privatization method used here was first to establish an employee joint-stock company and then privatize the property of the state enterprise.

3.3 Tatran publishing company

Tatran used to be a state-owned publishing house located in Bratislava. The sale of the enterprise, with an estimated equity of Sk.30 million, was concluded with Tatran-junior, an employee joint-stock company for 62 per cent of equity. Apart from this employee-owned company there were also four other bidders. The Government decided to sell the remaining 38 per cent for Sk.4.2 million to Stála konferencia slovenskej inteligencie Slovakia Plus.

3.4 ELV.S š.p. Senec

This former state enterprise was established in 1957 for the production of concrete pylons and other poles. The enterprise was the first in Central Europe in this area. A joint-stock company ELV Produkt was created on 1 November 1994 out of the state enterprise ELV.S Senec. The joint-stock company's shares are entirely held by the National Property Fund.

In 1994, ELV's total output was more than 36,000 poles of which roughly one-third were exported.

From 300 employees in 1991 the workforce grew to 500 employees in 1996. The present share structure in the company, is as follows: one-third owned by a foreign investor, one-third by employees including middle management and one-third by top management, three managers, all of whom are unionized. Turnover has jumped from Sk.170 million in 1991 to Sk.510 million in 1993.

Here, the MBO/EBO was set in train by management. In conformity with the Slovak business laws, there was an announcement inviting employees to subscribe to shares. Every employee had the possibility of so doing. This joint-stock company was established in order to bid for the state enterprise. Management wanted as many employees as possible to become shareholders. Both top management and the trade union chairman cooperated and had a mutual understanding of the interests of all parties.

The company now has 227 shareholders. There were no rules regarding a maximum amount of shares held, each with a nominal value of Sk.1,000. Some people invested as much as Sk.120,000.

Nominal wage increase has been stable. The working conditions are good. There are premiums every year to wages which can amount to 100 per cent of average monthly wage level (1994) and 60 per cent (1995). No lay-offs have occurred over this period.

3.5 ZEKON a.s., Michalovce

ZEKON, established in 1949, is engaged in the production of work wear, specialized work wear, men's casual trousers and jeans. It now has about 1,200 employees and a turnover of Sk.438 million.

The share structure in the corresponding employee joint-stock company is as follows: 51 per cent owned by managers and 49 per cent by employees. To secure a high participation of employees in the privatization scheme, it was decided to issue shares with a low face value. Consequently, 80 per cent of ordinary workers subscribed to shares.

Over the three years of the privatization process, the trade unions participated in several rounds of talks with management.

The unions agreed that the distribution structure of subscribed shares would be as follows: 55 per cent for top managers, 25 per cent for middle management and 20 per cent for the rest of employees. When top managers tried to acquire shares from other groups, the unions refused. It was agreed that the subscription would be done according to the aforementioned percentages. Moreover, any future trading in shares would also respect this ratio.

The union organization took into account the fact that it was, after all, an initiative of management to prepare the privatization project, to obtain bank credit and to invest money in the company.

On 1 June 1995, all claims and liabilities of the former state enterprise were formally taken over by ZEKON.

3.6 Podnik servisných a sociálnych služieb š.p.

This construction enterprise, located in Trnava town, is just about to be privatized. Initial discussions on privatization started in 1993. In May 1993, a privatization project was submitted to the Ministry of Privatization. In that first stage, the idea was to privatize all property of the state enterprise. There were two meetings of top management to which the trade union organizations were also invited. The project was prepared in consultation with the union organization. Another meeting was organized with workshop representatives.

Again, the initiative to privatize came from management acting in conjunction with unionized workers, involving an active workers' council. PSSS has 328 employees (31 December 1995) plus approximately 100 seasonal workers contracted for individual sites.

On 22 November 1995, an employee joint-stock company called Stavexport was established. Seventy-nine per cent of employees subscribed to shares. Employees could acquire a maximum of 30 shares, according to an idea mooted by the works council.

Top management and middle management are expected to take 51.4 per cent of shares and the other employees 48.6 per cent.

There was full support from the union organization for the privatization scheme, which can be explained by the threat from external investors and partly by the fact that managers had announced that they wanted to keep all employees, including those who will not be willing to subscribe to shares.

VÚB a.s., a commercial bank, gave a "bank's promise", a letter of intent to provide credit for the new employee company in case the NPF should decide to sell the enterprise.

3.7 EZ — Elektrosystémy a.s., Bratislava

EZ — Elektrosystémy is a company involved in building electricity lines, telecommunications networks, etc.

EZ had been a state enterprise until 20 July 1995, when the NPF decided to sell the enterprise to the employee joint-stock company "EZ — Elektrosystémy a.s.". The entire process took three years. At the very beginning the strategies diverged in EZ — Elektrosystémy. Management prepared to acquire the enterprise through a limited liability company, to be established by management (MBO). Trade union members, on the other hand, prepared a buy-out scheme involving an employee joint-stock company (EBO). Finally, a member of the former enterprise management launched a buy-out. None of the successor firms was actually registered. Nothing happened between 1992 and 1994. Then management understood that it had to use a common strategy. In 1994, an agreement was reached between management and the union organization to cancel all earlier proposals. Only one employee company was to be created. On 25 March 1994, the employee company was established. In March 1995, the Ministry of Privatization announced that seven other bids had been submitted and that there was going to be a competitive selection.

In May 1995, the Ministry of Privatization selected two potential buyers and informed the National Property Fund accordingly.

At the enterprise level, the role of the trade union organization had been limited to initiatives focusing on the threat of unemployment after the buy-out, wage policy, etc. There were several rounds of talks between the management and the trade union representatives. The only substantive issue raised by the union was the demand to limit the possibility of share purchase to the maximum number of 150 shares (of a nominal value of Sk.1,000 each) for each manager and employee. The most critical period was when preparing the statutes of the employee joint-stock company.

To be eligible, employees had to have 15 years of work contracts in EZ; 14,088 shares were subscribed with the top management taking a 12 per cent share. Share administration is regulated by rules named "Rules for the administration of the share fund". When leaving, employees must sell their shares back to the company. The board of the company registers applications for the purchase of these shares and approves the transaction. In this case, the above-mentioned limit of 150 shares is not applied.

The purchase on 1 November 1995 of the state enterprise "EZ — Elektrosystémy š.p." by employee company "EZ — Elektrosystémy a.s." was made possible by a credit from a commercial bank.

3.8 Chemosvit Svit a.s.

Chemosvit has 3,360 employees and a turnover of 3,320 million. Initially, the company was privatized by management and employees (51 per cent to employees and 49 per cent to management). Later, with another subscription of shares, the ratio changed to 53 per cent and 47 per cent respectively.

Top management visited the firm's divisions to explain the privatization scheme so as to save the employees the trouble of reviewing hundreds of pages of technical and financial data that might not be readily understandable.

Employees declared their interest in EBO. There were several rounds of discussions over the share structure in the new company. Management proposed 70 per cent of shares for founders (in fact top management) and 30 per cent shares for employees. This was not accepted so another proposal was made by management, namely top management 51 per cent, middle management 19 per cent and other employees 30 per cent. The union's organization proposed 30 per cent founders, 30 per cent middle management and 40 per cent other employees. They finally agreed on a ratio of 51 per cent management and 49 per cent employees.

At the beginning of bargaining, trade union members considered the possibility of imposing some conditions concerning the level of employment after privatization, the validity of collective

agreements, etc. They decided not to do so, because they realized that the fulfilment of all these conditions is linked to the company's future economic performance.

Every employee had the right to buy one share at Sk.300. The 1995 dividend was Sk.5,000. The union organization agreed very quickly with management on the face value of the shares. Managers were eligible to buy more shares. Roughly 3,700 shares have been subscribed with approximately 97 per cent of employees participating in the subscription. According to the company statute, there are limits on share transfer, i.e., sale of these shares is possible only with the approval of the Board.

3.9 PPS š.p. Detva

The special feature of this case is that the employee company established, in turn, an investment fund for privatization. In addition, there are two employee companies competing for privatization of the same state enterprise, Detva. The first is an employee company, "Detvan a.s. Detva" registered on 12 January 1994. It made a bid for 67 per cent of shares.

Detvan company's shareholders are: 34 per cent top management (25 managers), 17 per cent middle management (167 employees), 30 per cent employees and 19 per cent of shares belong to outside investors.

The second employee company, "Strojárne Poľana a.s., Detva", registered on 14 April 1994, made a bid for the majority of shares. Strojárne Poľana's shareholder structure is: middle management represents 223 shareholders, 165 shareholders are other technical-economic employees and 484 shareholders are manual workers. Thus, the total number of shareholders in Strojárne Poľana is 872.

Strojárne Poľana a.s. decided to bid for some part of the state enterprise through its own investment fund IF Poľana. The administrator of the investment fund was Matador Invest Púchov, an investment company involved in other MBO/EBO transactions.

In 1995, the battle for control between Strojárne Poľana a.s. and Detvan a.s. was waged in trade union publications. Eventually Detvan a.s. proposed that both Strojárne Poľana a.s. and Detvan a.s. should receive equal shares of assets — 33 per cent share of the privatized part of the state enterprise each — and that management should obtain a 34 per cent stake. Management of Strojárne Poľana a.s. refused, arguing that acceptance of this would violate their own principle of share distribution. Negotiations broke down. OZ KOVO, the umbrella trade union of the engineering sector, appealed to representatives of the employee-owned companies to resolve the difficulties through mutual agreement.

4. The role of trades unions in employee ownership privatization

4.1 The role of trades unions

At the time when the Government submitted its "Principles for employee participation in the privatization of enterprises", there was a broad consensus that trade union representatives generally have a right to express their concerns about privatization schemes submitted by the management of state enterprises. This is reflected in the law. More open to question is the unions' claim also to participate in the final approval of privatization schemes at the Ministry of Privatization and the National Property Fund. Without this, of course, the participation of trade union representatives is meaningless. The unions also suspect that the government-inspired general model of privatization — 46 per cent for vouchers, 36 per cent for management and 17 per cent to employees — makes employees serve only as a front for a sale to an outside investor. Often, the unions do support the initiative of management/employees to privatize their enterprise.

4.2 OZ KOVO

OZ KOVO is the largest confederation of trades unions in Slovakia (encompassing 42 trade unions' unions!). OZ KOVO feels that the National Property Fund does not fully appreciate and understand the scope for employee ownership. OZ KOVO also considers that the conditions for the participation of employees in privatization should be spelled out more clearly:

1. Employees themselves should decide whether they want to privatize and not just join in a scheme prepared by management.
2. There should be more democratic conditions for access to shares, as this is not always the case.
3. The distribution of shares is unfavourable. The majority is usually held by management, represented by a small group of people (usually five to six). OZ KOVO warns employees that this limits their participation in decision-making, even if it means hiring professionals for the management of the company.

Trade unionists also find it problematic that managers privatize only the best-performing or strategic parts of an enterprise leaving the rest to collapse; they also hire the best employees and abandon the rest. OZ KOVO itself does not want to be active in privatization, as this would create a conflict of interest. It recommends to the union organizations that whenever feasible they should participate in privatization. Their activity ceases as soon as the statutory bodies of employee joint-stock companies are created. At that point, the unions revert to their traditional role, i.e., collective bargaining for higher wages.

OZ KOVO has good relations with banks, the Ministry of Privatization, the NPF etc.; it sees its main responsibility as not to lobby in favour of any particular employee joint-stock company but to strengthen the capacity of trade unionists to be effective in the employee ownership process.

In cooperation with foreign institutions, several meetings were organized to improve coordination.

- international seminar in Oxford, United Kingdom (January 1995);
- seminar in Piešťany (organized by OZ KOVO, 1995);
- seminar in Macedonia (1995, OZ KOVO representatives informed on experience with privatization, how to avoid bad practice, etc.).

In March 1996, a study tour was organized (with the financial support of the British Know-How Fund) for 16 participants from Slovakia to visit employee-owned firms in England and Scotland. The group consisted of several Members of Parliament, company managers, journalists

and trade union members. The aim was to learn more from foreign experience, to gain political support.

OZ KOVO's philosophy is that an employee joint-stock company is a general vehicle for the involvement of employees in the process of workers' participation. In other words, OZ KOVO sees opportunities now for employee ownership in the current wave of privatization, and again later, when companies are threatened by bankruptcy and employees might be willing to buy them in order to avoid unemployment.

Box 3
Activities of OZ KOVO in 1995 and 1996

- Meeting of trade union members from enterprises which had been privatized by employees in the first wave of privatization, and from enterprises where privatization by employees is expected in the second wave. This was organized in February by the Economic Commission of OZ KOVO.
- Employee company TS Dubnica a.s. organized a seminar on privatization by employees. The seminar took place on 15 March 1995 with representatives of OZ KOVO.
- In April 1995, a document prepared by the Ministry of Privatization "The Principles of employee participation in the privatization of enterprises" was discussed in the OZ KOVO committee for economic and social agreement.
- In May 1995, members of trades unions participated in this discussion on the Principles. Based on the discussion, substantial changes were made to the Principles, which had initially excluded the possibility of management-only privatization. The principle of share division based on agreement between the two parties has been maintained.
- Upon approval by the Ministry of Privatization of "The Principles of employee participation in the privatization of enterprises", OZ KOVO and the legal adviser of the Ministry of Privatization organized a workshop of representatives (5 June 1995) from enterprises linked to OZ KOVO.
- International seminar on privatization by employees was organized by OZ KOVO and by the British foundation "Know-How Fund SR" (Piešťany 11-12 October, 1995).
- KOZ SR and Nadácia L. Novomestského organized a seminar on privatization by employees, where members of KOVO also took part.
- In the area of privatization, the current strategy will be followed, i.e., OZ KOVO will concentrate on educational aspects and on the creation and "social control" of legislation governing privatization.
- Cooperation with the Know-How Fund is to be continued in cooperation with Job Ownership Ltd. GB (financed by Know-How Fund) a visit of enterprises privatized by employees in England is planned.

4.3 The role of trade union association OZ Chémia

"Odborový zväz Chémia" (the trade union association of the chemical and pharmaceutical industry), does not especially promote employee ownership. Representatives of OZ Chémia explained that employees can participate in privatization, but should be made aware of the conflict of interests, (i.e. wages versus dividends problem).

Trade union members should bargain for a percentage of ownership for top managers and for ordinary employees. In their view, managers changed their attitudes towards collective bargaining after privatization by MBOs or by MBOs/EBOs with a preponderant share held by management.

5. The role of employers' associations in MBOs

The Association of Employers (AZZZ SR) deals mainly with tripartite issues and collective bargaining. Nevertheless, in the first half of February 1995, a meeting was held with the Slovak Government where management buy-out methods were discussed. There are no special bodies or sections in AZZZ SR to deal with MBO/EBOs.

There are no consistent strategies of support to MBOs; there is also no demand from management interested in privatization. Representatives of the Association took part in commissions, during the period 1991-93, to evaluate projects for the first wave of privatization, together with the Ministry of Economy, the Ministry of Finance, the Ministry of Privatization and others. If a project or scheme was approved by the commission, it was transferred to the Ministry of Privatization which made case-by-case decisions.

One of the members of the Association of Metallurgy, Mining Industry and Geology of the Slovak Republic is the Priemysel'na banka a.s., Kozice, which means that the Association can finance the enterprise privatization of other members.

6. The support of commercial banks in MBOs and EBOs

The majority of credits for privatization has been provided by the biggest state-controlled banks, VÚB and IRB. Všeobecná úverová banka a.s., one of the largest financial institutions in Slovakia, has no special scheme for financing MBOs/EBOs. There are only limits and general standards and provisions given to individual branches of the bank in Slovakia and these are responsible for the credits provided by them. As a rule, credit can be obtained only against collateral and a good business plan. Because of the highly publicized context of privatization in Slovakia, other banks are reluctant to disclose their involvement in privatization finance.

The only exception is Priemyselná banka a.s., a member of the Association of Metallurgy, Mining Industry and Geology, which takes a decidedly positive look at MBOs/EBOs. The explanation is cross-ownership between industrial firms and the bank.

7. Conclusion

Recent developments in privatization in Slovakia indicate a move towards management and employee forms of ownership. Measures include a generous repayment schedule, guarantees for credits by NPF or, in some cases, price discounts to encourage active involvement of managers and employees in the privatization of their companies. Employee ownership schemes are in no way a last resort as is clear from the high number of competing privatization projects in our sample. On the other hand, there are no guarantees that employee-owned firms will not be sold on to other investors later.

A support structure for the next stages of EBOs/MBOs could be useful for future ownership transfers, when private owners are willing to sell their property to other employees/managers.

Although the majority of the case-studies did not cover large companies, the fact that several industrial giants were privatized by MBO/EBO is important from the comparative analysis point of view among economies in transition.

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Annex 1

Other companies privatized by EBO, MBO and MBO/EBO

Other cases of EBOs, MBOs and EBO/MBOs are less well documented. The NPF does not disclose details about potential buyers in pending privatization procedures.

(a) Chempik a.s.

In March 1995, NPF announced a public tender for sale of its share in Chempik a.s. In order to participate in the bidding, employee-management joint-stock company PIO Chempik was established. There was support for this privatization move from various state bodies such as the Association of Employers and the Association of Chemical and Pharmaceutical Industry. Management had a 30 per cent stake in PIO Chempik and the rest of the shares were owned by employees. The NPF later cancelled the tender and suggested a direct sale of Chempik. The NPF then sold 52.38 per cent of Chempik's shares to a limited liability company, "Ospos International s.r.o.", PIO Chempik's sole competitor.

(b) Matador Púchov a.s.

Matador Púchov a.s. is a company employing a workforce of 3,850 with an equity of Sk.3 billion. The Slovak Government decided to sell the company to the employee joint-stock company Matador-Z, a.s. Púchov for Sk.1.57 billion. The structure of ownership in Matador-Z is as follows: 20 per cent is owned by 2,010 employees and 80 per cent by top management. The sale was approved on condition that the first payment would be Sk.62 million and that the rest be paid in instalments until 2004. There was a grace period in 1994-96 and the purchase price will be decreased by Sk.1 billion if this sum is invested in new technologies and environmental protection.

(c) Biotika a.s., Slovenská Ľupča

Encouraged by government resolution No. 357/1995 (Principles of employee participation in enterprise privatization), employees of Biotika established an employee joint-stock company Biotika-Zamestnanci, in which majority shares are held by ordinary employees. It was registered on 31 August 1995 to bid for 40.6 per cent of shares of Biotika a.s. from the NPF's portfolio. Support for this privatization project was given by the Union of Chemical and Pharmaceutical Workers of the Slovak Republic.

According to the unions, persistent delays led to problems in negotiations with Biotika's partners. There is no plan to finance the buy-out from foreign sources or from capital sources. The volume purchase is 415,035 shares. Biotika-Zamestnanci is offering Sk.380 million in cash payment with a promise to invest Sk.1 billion. If any buyer offers less advantageous conditions, then the employee company wants to use all legal measures to protect its interests.

(d) ZVL Kysucké Nové Mesto a.s.

ZVL Kysucké Nové Mesto has always been the biggest producer of ball bearings and similar products. In the former Czechoslovakia its market share amounted to 30 per cent. In the framework of large-scale privatization, it was decided that the company with own equity of Sk.1.1 billion would be privatized by vouchers. The company encouraged participation by its employees by giving them Sk.1,000 provided they remained in the company. Vouchers held by employees and their relatives totalled 16.5 per cent. They received 30 shares each at market value ranging on the stock market from Sk.26 to Sk.100 per share. However, most of the employees lost their jobs.

This was because the company, that initially ranked among the top 20 best-performing companies, prior to voucher privatization adopted a bad production strategy and became over-indebted. In mid-1993, the company went bankrupt and VÚB a.s. and Investičná a rozvojová banka a.s., its biggest creditors, applied for liquidation.

(e) Slovintegra a.s., Bratislava

This case illustrates the frequent shifts in the ownership of an employee-owned company. Slovintegra was established by 19 top managers in April 1995. After the subscription of new shares, in October 1995, the ratio of managers to employees in this company was 51:49. The company itself has been established to participate in the privatization of Slovnaft.

Table 1. Ownership structure of Slovnaft a.s., Bratislava (share in equity)

	May 1992	April 1993	June 1993	August 1995	September 1995
NPF SR	100.0	77.0	80.0	64.0	25.0
RIF	0.0	3.0	3.0	2.0	2.0
MEC	0.0	0.0	0.0	0.0	39.0
INVI	0.0	20.0	17.0	34.0	34.0
Equity (in billion Sk.)	11.3	11.3	13.2	16.5	16.5

Notes: NPF SR = National Property Fund of the Slovak Republic;
RIF = restitution investment fund;
MEC = management-employee company;
INVI = investors from the first wave of privatization and other shareholders.

Source: *Trend*, 1995.

(f) Slovakofarma Hlohovec, a.s.

The company was partly sold in the first wave of voucher privatization (20.5 per cent). After a new subscription of shares, the NPF became the majority holder with 78 per cent of shares. The direct sale of 78 per cent of shares of Slovakofarma was approved by the Government, on the grounds that there is no reason for the NPF to hold a permanent stake in the company because the market share of the company was relatively low (about 16 per cent).

Slovakofarma was sold for Sk.1.5 billion (1,081,104 shares at a nominal value of Sk.1,000 each), to SL-Pharma Holding GmbH., Wien, a company established by the top management of Slovakofarma. Management will invest Sk.663 million in enhancing organization and environmental protection; the purchase price will be reduced by the aforementioned sum. In addition, the buyer has to allow for 10 per cent of employee shares.

(g) Skloobal Nemšová a.s.

(h) Duslo Šaľa a.s.

In this case 67 per cent shares of Duslo šaľa a.s. was sold to employee joint-stock company Prezam a.s. for Sk.2.67 billion.

(i) Skloplast Trnava a.s.

Sixty-seven per cent shares in Skloplast Trnava a.s. were bought by employee joint-stock company Glasplast a.s.

(j) Slovenské energetické strojárne a.s., Tlmače

A control of Slovenské energetické strojárne (SES) a.s., Tlmače has been taken over by the top management of the company. The bulk of controlling shares was bought on the Slovak capital market from several institutional investors. The management joint-stock company, Rawin, involves three top managers of SES. The reason for the takeover was presented by Rawin as necessary to introduce a restructuring programme, possibly implying unpopular measures.

(k) VSŽ a.s., Košice

Also part of the biggest Slovak steel-making company, VSŽ a.s., Košice, this state enterprise was sold to three employee companies, Hutník, Manager and Ferrimex, holding together more than one-third of shares; roughly one-third was owned by investment funds and one-third by individual shareholders. In mid-February 1996, a group of top managers of VSŽ acquired 55 per cent shares in the company by way of additional shares. Since January 1996 VSŽ's shares are also traded on the Bratislava Stock Exchange (TBSE).

(l) Petrochema Dubová a.s.

Sixty per cent of the firm was bought by foreign investors and 40 per cent by management, which gave 5 per cent to employees free of charge.

(m) VEGUM Dolné Vestenice

A new joint-stock company where 51 per cent is owned by employees and management and the rest (49 per cent) by NPF (33 per cent) and others. The internal stake is distributed as follows: 53 per cent employees, 16 per cent lower management, 14 per cent middle management and 17 per cent top management.

(n) Novácke chemické závody a.s., Nováky

A foreign investor, a Prague-based Czech firm Inekon entering NCHZ was refused the right to acquire shares by the NPF. Employees support the involvement of Inekon because of its sound financial management.

The NCHZ is up for partial privatization by MBO/EBO. The general distribution of shares is still disputed. It is now envisaged to reserve 34 per cent for Inekon a.s.; 29 per cent for the employee company NCHZ a.s.; 34 per cent for the NPF; and 3 per cent of shares for the restitution fund.

Within the employee company, share distribution will be as follows: 51 per cent of shares to be held by management of the "old" NCHZ a.s. and 49 per cent of shares to be held by employees.

The breakdown is not acceptable to the employees of the NCHZ company. Using their trade union organization to drive a bargain for them, they are demanding a bigger stake from the NPF, at least 34 per cent and even 51 per cent of shares.

The outcome of this dispute is still unclear.

Annex 2

A. List of enterprises and institutions surveyed

Enterprises:

- (a) Baňa Dolina, a.s.;
- (b) Pivovar Stein š.p., Bratislava;
- (c) Tatran publishing company, Bratislava;
- (d) ELV.S š.p. Senec;
- (e) ZEKON a.s., Michalovce;
- (f) Podnik servisných a sociálnych služieb š.p., Trnava;
- (g) EZ — Elektrosystémy a.s., Bratislava;
- (h) Chemosvit Svit a.s.;
- (i) Slovenský hodváb Senica š.p.;
- (j) Chemlon š.p., Humenné.

Institutions:

Employees' organizations:

The Confederation of Trade Union Associations;
Trade Union Association OZ KOVO;
Trade Union of the Chemical Industry OZ Chémia.

Employers' organizations:

The Association of Employers' Associations and Unions;
The Association of the Metallurgy Industry;
The Association of the Glass Industry.

Banks:

Poľnobanka, a.s.;Ľudová banka, a.s.;Všeobecná úverová banka, a.s.

B. Selected direct sales approved by the Presidium of the NPF

Enterprise	Account value	Amount	Buyer	Price ('000 Sk.)	First instalment ('000 Sk.)	Investment ('000 Sk.)	Approved day ('1995)
VSŽ, a.s. Košice	1 644 816	10% of shares	Hutník, a.s. Košice	328 963.2	328 963.2	—	16 Feb.
ZEKON, š.p. Michalovce	124 813	Part of firm	Zekon, a.s. Bratislava	125 000	13 000	62 000	6 Apr.
Slov.záv. tech.skla, a.s., Bratislava	208 586	67% of shares	Technické sklo s.r.o. Bratislava	140 700	28 140	70 350	15 June
ELV.S Senec, š.p.	92 909	67% of shares	ELV.S., a.s.	115 000	23 000	55 000	13 July
EZ-ELEKTROSYS- TÉMY Bratislava, š.p.	167 298	Firm	EZ-Elektro- systémy, a.s. Bratislava	140 000	28 000		20 July
VSŽ, a.s. Košice	2 512 224	15.2% of shares	FERRIMEX s.r.o. Košice	502 445	502 445	—	20 July
Slovnaft a.s. Bratislava	6 422 892	39% of shares	SLOVIN-TEGRA a.s. Bratislava	6 422 892	100 000	3 038 810	10 Aug.
Petrochema š.p. Dubová	649 552	Firm	PETROCHEMA a.s. Dubové	150 000	30 000	75 000	17 Aug.
Slovenský hodváb š.p. Senica	1 019 187	Firm	Slovenský hodváb-RESS a.s. Senica	1 300 000	200 000	650 000	7 Sep.
Pivovar Stein š.p.	178 602	Firm	S.t.e.i.n. a.s. Bratislava	200 000	30 000	100 000	7 Sep.
Baňa Dolina a.s. Veľký Krtíš	647 640	63% of shares	DOLINA VEĽKÝ KRTÍŠ, a.s. Veľký Krtíš	429 000	0	429 000	24 Nov.
Vydavateľ-stvo TATRAN, š.p. Bratislava		Firm	Vydavateľ-stvo SLOVENSKÝ TATRAN s.r.o. Bratislava	1 000	200	—	21 Dec.

Source: Prepared by D. Brzica from data provided by the NPF.

C. Companies analysed (chemical and pharmaceutical industries)

Name of enterprise	Matador a.s.	NCHZ a.s.	Matador š.p.	Vegum a.s.	HOECHST – BIOTIKA s.r.o.
Location	Púchov	Nováky	Bratislava	D. Vestenice	Martin
Industry	Chemical	Chemical	Chemical (rubber)	Chemical (rubber)	Pharmaceutical
Number of employees (a)	4 015 3 890 4 600	2 580 2 580 2 580	2 200 1 500 1 010 (X)	1 035 1 045 1 040	220 190 290
Initiator of privatization	Management	ME	ME	Management trade union organization	ME
Change of ownership	A (70%, 26%)	D	D	A	C (XX)
Who decides on form of privatization	ME	NPF, ME	ME	NPF, recommendation of ME	ME
Involvement of* trade union organization (area)	1, 3	4	1, 2, 3, 4, 5	1, 4	—
Degree of** involvement	2	5	2	5	2
Sources of*** financing	3, 4	3, 5	—	4	5 (XXX)
Notes		Privatization is not finished yet. Ownership structure is now: 34% NPF, 34% foreign owner, 29% employee shares and 3% restitution fund	Transformed into several firms: Matadorex a.s. (550) Matadorrol a.s. (310) Matadorfix s.r.o. (60) Madons s.r.o. (30) SAVAMA s.r.o. (60)	Shares were bought for cash from financial sources of employees	(XX) 52% HOECHST 48% BIOTIKA (XXX) Common investment of stakeholders HOECHST — direct financial investment in DM BIOTIKA — property (land, buildings, machines)

Notes and abbreviations:

Change of ownership: A — Direct sale to management and/or employees. B — Joint venture with Slovak investor. C — Joint venture with foreign investor. D — Mixture model of above-mentioned schemes. NPF — National Property Fund. ME — Ministry of Economy.

* Involvement of trade union organization (area): 1. Initiation, preparation of privatization project. 2. Company valuation. 3. Adaptation of project after consultation with a Ministry. 4. Arrangement for employee ownership of shares. 5. Final bargaining with NPF/Ministry of Privatization. 6. Negotiations with banks, financial institutions and others.

** Degree of involvement: 1. Little or no information. 2. Detailed information available but no possible involvement in decision-making. 3. Opportunity to give an opinion — management explained problem and asked for views. 4. Opinion was taken into account by management. 5. Joint decision-making. Management and trades unions met and analysed problems. Management had as much influence and information as trades unions. 6. Complex control by trade union organizations. Trades unions obtained the right to deal with problems related to privatization.

*** Source of financing: 1. Personal savings of employees. 2. Personal savings of management. 3. Loan from whatever fund created for privatization. 4. Bank loans. 5. Others.