



The Consequences of the Privatization Process for Employee-Owned Companies – Some Evidence

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Introduction

The success of the deep restructuring of economic relations in the Polish economy depends primarily on the effectiveness of the reform aimed at restructuring ownership in all sectors. This requires a new approach to the prospects of private property growth, i.e. an approach unbiased by any doctrinal prejudices, as well as suggestions glorifying private property as a panacea to cure the Polish economy. It should be remembered that the economy is a complete system of sectors that are interlocked, both co-operating and competing, in terms of social labour productivity, and represent a variety of forms of ownership and businesses. The characteristic feature of the present and future stages of development is the co-existence and competition of many types and forms of factors of production (Janusz 1990).

As is known, the economic transformation is part of a wider process of systemic transformation and within this process a special place is held by the political system, although we should remember that these are changes in the economic system which will ultimately determine the success or failure of the ongoing changes. At the same time, changes must take place in the social structure. These must both consolidate new structures or force a slowdown in the pace of changes, as well as demand a restoration of old solutions. The transformation process begins with gaining political power. Its preservation is largely dependent on the declared concept of changes, its attractiveness for society, etc. An important role in winning public opinion can be played by the mass media. However, existing conditions may restrict this role effectively. After all, society must carry the costs of transformation processes, which arouses dissatisfaction especially among those social strata that carry the heaviest burden of these costs. Additional difficulties are created by the economic recession usually accompanying these processes, which extends the period of awaiting a marked improvement in living conditions (Rudolf 2000).

Transformation processes may end successfully only when the majority of society accepts the new systems of values. The new values may be gained as a result of

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privatization and restructuring changes. Privatization involves taking actions to limit government participation in the functioning or ownership of resources to the benefit of the private sector. Moreover, privatization is also a conversion process of the national economy in which the dominant role is played by large-scale participation of companies and particular branches of national economy with clearly defined private owners in comparison to the public sector (Sobolewski 2003).

An effective ownership transformation policy may be achieved either by forming conditions which allow for the creation of new companies with different ownership structures or by transferring ownership of existing national and co-operative companies. Some motives of privatization processes are as follows:

- a) reducing economic dependency on politics impeding economic processes,
- b) limiting the government's role and increasing the importance of private institutions (ideological motive),
- c) achieving budget gains on the grounds of selling state property, and increasing the benefits for the country by shifting part of the expenses hitherto borne by the state onto private companies and tax benefits (economic motive),
- d) increasing the welfare of society by better fulfilling its needs (populist motive),
- e) changing the form of ownership is an effective tool for increasing the effectiveness of company management in the public sector due to the increased competitiveness of (more effective) private companies,
- f) boosting individual entrepreneurship and involvement,
- g) private property is the first step to the introduction of structural changes to create a capital market which is necessary for the flow of capital between the sectors of economy. The need to change the structure of production and the previous priorities from heavy industry to agriculture, light industry and production of consumption goods was a significant factor (Kołodko 2008).

Methods and paths in ownership restructuring

The change of ownership (ownership restructuring) of state-owned enterprises is closely related to the need to gain a clearly defined major owner, which would make a responsible and economically feasible takeover of the most important functions leading to the development and long-term multiplication of the enterprise's value (Suszyński 2003). Moreover, privatization is a necessary condition to perform a deep, effective sectoral restructuring, and the range, pace, and the forms of privatization exert a significant influence on the shape of the economic system, working effectiveness and effectiveness of market mechanisms. If state ownership is maintained, it will be impossible to gain the funds necessary to perform further restructuring. (Bochniarz and Krajewski 1997).

The body overseeing ownership transformations is the Ministry of the Treasury. On December 31st 2008 the Ministry of the Treasury was a body comprising 14 state-owned enterprises and 1 national bank. It also supervised 1170 companies; including

483 companies wholly owned by the State Treasury and 687 companies part-owned by the State Treasury (Ministry of Treasury 2009).

One feature of the Polish model of ownership transformations is a significant number of privatization methods, paths and schemes. The basic privatization activities are conducted by liquidation and commercialization of state-owned enterprises (Bogdanowicz-Bindert and Czekaj 1997). Within the framework of the available forms for transforming companies, the following should be mentioned:

- direct privatization (by virtue of the Act on state-owned enterprises of 25th of November 1981 and the Act on privatization of state-owned enterprises of 13th of July 1990. A state-owned enterprise put into liquidation is liquidated, then sold or the property is taken over by the State Treasury and sold to a private buyer, contributed to another company or leased).
- capital privatization (by virtue of the Act of 13th July 1990, a state-owned enterprise is transformed into a company wholly owned by the State Treasury designated to be privatised individually – by the indirect method) by selling the majority shareholding or shares,
- general privatization programme based on the concept of National Investment Funds (by virtue of the Act of 30th April 1993 state-owned enterprises are transformed into companies wholly owned by the State Treasury earmarked for general privatization; the next stage is selection of enterprises and selection in the form of a tender, and companies managing the funds,
- the “stabilization, restructuring, privatization” programme, as a complement to the capital, general privatization and privatization by liquidation, implemented together with the European Bank for Reconstruction and Development,
- small-scale privatization (creating new business entities, mainly in the form of companies),
- managerial contract programmes,
- regional investment fund programmes.

Apart from the methods listed above, liquidation of enterprises is also often mentioned because of economic reasons (art. 19 of the Act on state-owned enterprises) and the adjustment of debts (valid from 1996), which, in fact, are not forms of privatization but as its tools, they have played a huge role in transferring privatised properties into the private sector.

Indirect privatization may proceed as follows: selling shares and stocks belonging to the State Treasury in one of the following modes (Kozłowski 2002):

- offerings made to the public,
- public tenders,
- negotiations taken up on the basis of public proposal,
- approval of the offer in response to the call made on the basis of the Act of 29th July 2005 on public offering and the conditions of introducing financial

instruments into the organised trading system and on public companies made by an entity responsible for the call,

- public auction.

The bodies entitled to propose a transformation of a public-owned enterprise into a partnership with the sole partner is the Treasury are:

- 1) the director and workers' councils of public enterprises (joint motion) with the approval of the enterprise establishing body,
- 2) the enterprise establishing body with approval given by the director and the workers' council.
- 3) Minister of Treasury (<http://prywatyzacja>, 16 June 2009).

The transformation of a public enterprise into a partnership with the Treasury as the sole partner in effect means that the only thing that changes is the charter of the enterprise, while the owner stays the same, as the enterprise transformed (partnership held solely by the Treasury) keeps its public character. Changes in ownership will only take effect when the Treasury sells a part of the assets to third parties as shares or interests. Joint-stock or limited liability companies are set up in the reselling process. How an enterprise is going to be transformed depends on the establishing body, i.e. on the Treasury. Practice shows that joint-stock companies stand the practical business test wherever the capital is large or the owners (shareholders) are many. Where capital is small and the shareholders also few, a limited liability company performs better. Although a joint-stock company is a more complex organisation than a limited liability company, its organisational form is more favourable for the emergence of the capital market on which shares are more marketable than interests. Yet it is still possible to transform limited liability companies into joint-stock ones in order to proceed with privatization.

The theoretical design of solutions to optimise the array of ownership relations only leads to inventing idealistic, sometimes utopian, solutions. Hence the assumption that changes in ownership can be evolutionary, with various forms of ownership coexisting. Competition fosters more efficient forms while at the same time leading to the disappearance of those inefficient ones. Such a solution, seemingly logical and difficult to undermine, has its practical value when based on principles shaping the evolution of the forms of ownership. It can be clearly seen that the present structure of ownership provides scope for public enterprises, joint-stock companies and limited liability companies, co-operatives and other business organisations.

The need felt in the economy to popularise partnerships has resulted in the following configurations of ownership: partnerships held solely by the Treasury, partnerships between the Treasury and legal persons (domestic and foreign), partnerships between the Treasury and individuals (domestic and foreign), partnerships between the Treasury and the employees of enterprises, autonomous partnerships of employees, private partnerships, and partnerships which are combinations of the variants listed above.

The changes concerning the quantity aspects of privatization are presented in Table 1. As of 31st December 1990 there were 8,453 state-owned enterprises in Poland (Statistical Bulletin 1991), 5,947 of which were subject to the ownership transformations till the end of June 2009. Direct privatization concerned 2,299 enterprises, which is 38.7% of all enterprises. 2,213 entities were privatized in this form.

Tab. 1: Process of ownership transformations of state-owned enterprises in the period 01.08.1990 - 30.06.2009

Status as of	State owned enterprises included in the privatization process										
	Total 3+7+10	Indirect privatization				Direct privatization			Liquidation under art. 19 of the Act on state enterprises		
		Sole-shareholder Companies of the State Treasury	Disposal of stocks/shares		%	Approval of MOT / MT	Removed from the list of state owned enterprises	%	No objections of MOT / MT	Removed from the list of state owned enterprises	%
			Total ²	of indirect privatization							
1	2	3	4	5	6	7	8	9	10	11	12
31.12.91	1217	267	28	28	10,5	415	182	43,9	535	19	3,6
31.12.92	2038	489	51	51	10,4	696	484	69,5	853	105	12,3
31.12.93	2566	595	98	98	16,5	892	753	84,4	1079	221	20,5
31.12.94	3078	816	134	134	16,4	1023	937	91,6	1239	333	26,9
31.12.95	3619	1062	220	160	20,7	1174	1076	91,7	1383	433	31,3
31.12.96	4044	1193	787	184	66,0	1371	1280	93,4	1480	565	38,2
31.12.97	4358	1254	845	228	67,4	1564	1444	92,3	1540	664	43,1
31.12.98	4655	1372	886	244	64,6	1699	1589	93,5	1584	734	46,3
31.12.99	4958	1469	912	262	62,1	1848	1739	94,1	1641	790	48,1
31.12.00	5216	1506	938	283	62,3	2012	1891	94,0	1698	836	49,2
31.12.01	5350	1515	970	315	64,0	2084	1954	93,8	1751	848	48,4
31.12.02	5450	1527	992	336	65,0	2128	2021	95,0	1795	885	49,3
31.12.03	5533	1539	998	342	64,8	2164	2062	95,3	1830	935	51,1
31.12.04	5631	1562	1008	352	64,5	2216	2119	95,6	1853	990	53,4
31.12.05	5715	1578	1020	358	64,6	2253	2157	95,7	1884	1031	54,7
31.12.06	5747	1587	1026	364	64,7	2263	2181	96,4	1897	1056	55,7
31.12.07	5809	1619	1051	384	64,9	2283	2194	96,1	1907	1077	56,5
31.12.08	5909	1697	1061	387	62,5	2297	2210	96,2	1915	1106	57,8
30.06.09	5947	1726	1065	387	61,7	2299	2213	96,3	1922	1116	58,1

¹ together with 117 companies wholly owned by the State Treasury created by other Ministers and taken over by the Minister of Treasury as a result of the reform of the economic centre of the government in 1997

² concerns companies privatized indirectly, transformed pursuant to Section 3 of the Act on the commercialization and privatization of state-owned enterprises introduced to the National Investment Fund and companies in which shares/stocks have been made available under the Adjustment of Debts of Bank (BPU)

MOT - Ministry of Ownership Transformations; MS - Ministry of Treasury

Source: The Dynamic of Ownership Transformations, Ministry of Treasury, Department of Strategy and Instruments of Property Policy, Warsaw Dec. 2000, No. 47, p.11; The Dynamic of Ownership Transformations, Ministry of Treasury, Department of Research and Forecast, Warsaw Apr. 2004, No. 58, p.11-12; http://www.msp.gov.pl/index_msp.php?Dzial=23&id=963; The Dynamic of Ownership Transformations, Ministry of Treasury, Department of Research, No. 68, op.cit., p.11

Table 2 presents the status of employment in the enterprises subject to privatization according to the size of enterprises and the methods of privatization.

Tab. 2: Transformations of state-owned enterprises according to the rate of employment and the methods of privatization

Rate of employment		Enterprises covered by transformations			
Status as of: A – 31.12.2008 B – 30.06.2009		Total	Commercialized	Privatized Directly	Art. 19 of the Act on state owned ent.
Total	A	5909	1697	2297	1915
	B	5947	1726	2299	1922
up to 49 people	A	1440	44	556	840
	B	1456	53	556	847
50 – 249 people	A	2273	248	1155	870
	B	2293	266	1157	870
250 – 499 people	A	806	351	332	123
	B	808	353	332	123
500 people and more	A	1390	1054	254	82
	B	1390	1054	254	82

Source: The Dynamic of Ownership Transformations, No. 68, op.cit., p.16

Because of economic reasons 1,922 enterprises were liquidated (32.3%), but the liquidation process was completed in 1,116 enterprises, and in 683 cases the process led to the declaration of bankruptcy. 1,726 state-owned enterprises were transformed

(29.0%). Most enterprises, (34.3% of the total of 5,947) were privatized during the first two years of the process of ownership transformation. In the following years between 400 and 500 enterprises were privatized on average every year (till 1996), and then only about 300 enterprises yearly (till 2000). The last 9 years have been characterized by a lower level of privatization growth. In the National Business Registry Number (REGON), conducted by the Polish Central Statistical Office (GUS), as of 30st June 2009 there were 316 state-owned enterprises (Statistical Bulletin 2009). During this 19-year period 1,654 agricultural state-owned enterprises were liquidated (Privatization of State Owned Enterprises 2005). The revenue gained from privatization in 2008 came to 2,371.7 mln zlotys.

In Table 2 it is clearly seen that of the commercialized enterprises the majority are huge enterprises employing more than 500 people, which represents almost 62% of all enterprises privatized with this method. Due to the economic reasons mainly small and medium enterprises employing up to 249 people were subject to the liquidation method. At the end of 2008 they represented almost 90% of all liquidated enterprises.

The most important effect of privatization is fulfilling its primary aim, namely that state-owned enterprises are replaced by private enterprises, which are more efficient and more adapted, as the previous experience shows, to the requirements of the contemporary market (Bałtowski 2000). However, the process of ownership restructuring, as a long-term activity, faces some obstacles:

1/ the reluctance of workers in public enterprises to sell the assets of the enterprise they work for to private persons or individuals, domestic or foreign, who have no link with the enterprise. The fear of the company's assets being taken over gives the workforce a strong impulse to self-management, one form of which is workers performing the function of shareholders. For the time being the process is not widespread, but this type of employee drive is reflected in the varieties of relief and preferences granted to workforce buying their enterprise's assets;

2/ the reluctance of society to invest their savings in the purchase of national assets. It must be remembered that the Polish society is not only poor, but it does not have a strong enough tendency to invest in the assets of public enterprises either;

3/ even if society does buy shares, this operation is frequently treated as a financial investment or an opportunity to become a shareholder, which may freeze trading in the stock and subsequent capital flows between various sectors and branches so necessary for restructuring the whole economy;

4/ the lack of an objective valuation method to value public enterprises' assets means that assets may be sold on better conditions than others depending on the valuing institution. As a consequence, people with disposable funds may take over the assets of public enterprises at too low a price, which results in serious social unrest, especially among the enterprise's workforce.

Still, it should be remembered that without any ownership changes wider participation of employees in the functioning of a company is impossible. Employee participation programmes have been broadly discussed in literature, therefore due to the nature of ownership changes resulting in creating enterprises, in which a part of their assets belongs to the workers, it is possible to concentrate on a brief characteristic of employee-owned companies and their role in the economy.

Employee-owned companies appeared as a result of direct privatization, otherwise known as liquidation privatization, when company assets are transferred to chargeable use with purchasing rights to a company established by the majority of a given enterprise (leasing). Of course, some formal requirements must be met, e.g. partners can only be natural persons (unless the Minister of Privatization allows a legal person to join the company and the amount of share or initial capital of company cannot not be lower than 20% of the overall value of initial capital and company capital according to the state on the day the liquidation process begins. In order to conduct such a privatization and to obtain the necessary capital, those initiating the process must convince the workers to buy shares. It has often happened that the assets amassed by employees were not sufficient to conduct the transaction, which is why special funds were activated (e.g. from divided company revenue, from social or housing funds, or bank loans), which were used to purchase shares for employees (see: Jawłowski 2001). This method proved effective for small and medium enterprises (up to 250 people), which did not require significant financial resources to be activated as was the case during the privatization of large enterprises.

In the first stage of liquidation privatization, most workers joined the process of establishing new employee-owned companies, and the larger the company, the greater the number of workers needed to purchase shares¹. In most cases the initiators of privatization were not regular workers but rather representatives of senior managerial staff. Unfortunately, the current trend shows a constant decrease in employee participation in the ownership structure of employee-owned companies, both absolute and relative. The change tends towards reselling shares to the management and the managers.

Next, there is an increase in the participation of external investors in the ownership structure of the company. In this situation it is difficult to talk about employee-owned companies as a more appropriate name would be 'a management company'. The reason for this may be sought in e.g. a lack of an educational element in the process of establishing employee-owned companies aimed at increasing the economic awareness of employees, thereby placing the emphasis on the added value of this form of

¹ On average 76% of employees joined a company. In 10% of enterprises less than half of employees joined a company. In 80% of companies regular employees owned more than 50% of shares, and in 13% of firms the majority was represented by the members of the board of directors and the supervisory board (senior managerial staff). In 91% of companies with more than 300 people the majority of shares belonged to employees

ownership, which serves to limit significantly the antagonism between capital and work, and promotes a new type of ownership responsibility by introducing participatory solutions in the management system (see: Ruszkowski 2010). In many cases the lack of education resulted in the almost immediate sale of company shares by employees. The mentality of Polish entrepreneurs indicates that they do not bother whether employees know foreign languages or not, nor is their mobility level or readiness to change of importance. A willing and skilled worker/specialist who does not have to think a lot is an ideal expert and nothing more should be required from him (see: Klinger 2010). The concept of further participation and establishing employee-owned companies involves the implementation of the government programme "Supporting privatization through granting guarantees to companies with employees participation and local government units", designed on 20th October 2009 by the Ministry of Economy. The main goals of the programme include activating and stimulating employees, increasing local government interest in taking part in privatization, as well as popularizing civic property.

Private companies, with and without employee share plans – a comparative analysis

Companies with employee share ownership are characterized by a significant spirit of entrepreneurship and a consideration of how to improve current economic results and increase competitiveness. Although the research conducted in many countries does not always confirm this view, the positive influence of ownership participation schemes on the economic effects achieved by enterprises may be indicated. The lower mobility level of employees (at least those most important ones) is also emphasized by offering them appropriate incentives to convince them to stay in the company. It is also worth mentioning that there is an increase in employee involvement and greater identification with the company's goals. Many of those results may be achieved through more widespread practices of managing human resources, such as direct participation of employees in decision making processes and informative policy.

The economic results mentioned above induced the author to check the results of research conducted by foreign researchers. In order to do so he compared private companies listed on Warsaw Stock Exchange (WSE) in Poland which do not have employee share schemes (or other programmes with workers' financial participation) with companies in which these schemes are implemented.

The sample of listed companies is considered to be a sample drawn from the population of all companies altogether, with every type of participation schemes or without such ones. The purpose of such a choice may be justified by easier access to information and the possibility of obtaining economic data from particular firms, whereas due to the large number of unlisted companies, obtaining data from those firms would be disproportionately time-consuming. Nevertheless, this modest information shows, on one hand, that there is unfortunately not such a high

participation level of companies applying financial participation schemes, and on the other hand, that their economic situation appears to be better.

Methodology: the data used in the comparable analysis were obtained from the reports of the companies listed on the Stock Exchange and from the author's own calculations, as well as from the Annual Economic Survey of Employee Ownership in European Countries from the European Federation of Employee Share Ownership. The list of companies listed on Warsaw Stock Exchange embraces 535 companies (in Poland there are over 3.7 mln registered business entities, most of which are firms registered by natural persons) in which 79 companies are applying one of three forms of financial participation.

In order to conduct a comparable analysis, listed companies were been divided into two groups. The first group included companies using financial participation schemes, and the latter included ones which, according to the information collected by EFES, did not apply such schemes. The value used in statistical tests was work efficiency, that is production per employee. Both groups were divided according to the level of employment into large and medium companies. In the group with the companies without financial participation 38 firms were rejected because of the lack of any information on employment. Table 3 shows the data concerning the number of large and medium firms in both groups, as well as comparisons regarding average work efficiency.

Tab. 3: Comparison of the data for average work efficiency of both groups of companies with regard to the division into large and medium ones.

Companies		
With FP	Big companies (more than 250 employees) = 62 companies	average efficiency = 1813,3 standard deviation of population = 3110,6
	Medium size companies (50-250 empl.) = 11 companies	average efficiency = 4432,2 standard deviation of population = 6192,2
Without FP	Big companies (more than 250 employees) = 121 companies	average efficiency = 1069,2 standard deviation of population = 3817,9
	Medium size companies (50-250 empl.) = 133 companies	average efficiency = 825,66 standard deviation of population = 1350,22

Source: own calculations

Comparing the average work efficiency in both groups of companies in Table 3, it appeared that the average work efficiency is higher in the group with companies that use employee financial participation schemes, and in the subgroups of large and medium-sized companies. Primarily this means that when workers have shares in the ownership structure, they try to work harder.

An additional method whose aim is to show the influence of participation schemes on work efficiency is the test for two average values. It was conducted for both large and medium companies. In the large company group the null hypothesis is tested according to which in both groups of companies the average work efficiency is equal with regard to the alternative hypothesis, which states that work efficiency is higher in the group of companies with employee participation in ownership structures.

$$H_0: E(Y/L)_{FP} = E(Y/L)_{others}$$

$$H_1: E(Y/L)_{FP} > E(Y/L)_{others}.$$

Having performed the calculations, it transpired that the alternative hypothesis may be accepted with a test probability of 0.071. This also means that by accepting this hypothesis the error occurs not more often than 71 times per one thousand on average.

Conducting a test for two average values in the large company group (50-250 employees) and formulating similar hypotheses, it also transpires that the alternative hypothesis may be accepted with the test probability of 0.027. This also means that by accepting this hypothesis the error occurs not more often than 27 times per one thousand on average. As can be seen, the result obtained in the medium-sized company group is even higher than in the large company group.

Another test applied to compare work efficiency in both groups of companies is the test of two fractions (index of structure). In calculations only large companies were used in which the efficiency per one worker came to at least 1 million PLN. It has been assumed that:

$$H_0: p_1 = p_2$$

$$H_1: p_1 > p_2,$$

where p_1 is the percentage of companies with the work efficiency above 1 million PLN in the group with companies using share ownership, and p_2 is a percentage of companies with the work efficiency above 1 million PLN in the group of companies without financial participation (without share ownership).

The statistics are as follows:
$$U = \frac{\frac{m_1}{n_1} - \frac{m_2}{n_2}}{\sqrt{\bar{p}(1-\bar{p})/n}}$$

where m_1 – the number of companies with FP, in which work efficiency $(Y/L) > 1$ mln PLN = 25

m_2 – the number of companies without FP, in which work efficiency (Y/L)>1 mln PLN = 19

n_1 – the total number of large companies with FP = 62

n_2 – the total number of large companies without FP = 121

$$\bar{p} = \frac{m_1 + m_2}{n_1 + n_2} \quad \text{and} \quad n = \frac{n_1 * n_2}{n_1 + n_2}.$$

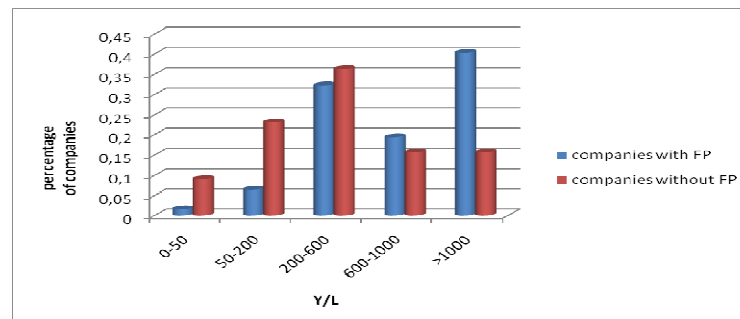
These calculations revealed a test probability of 0.00012. The null hypothesis can be rejected and the alternative hypothesis H_1 may be accepted with a test probability of much lower than 0.0001, which once again indicates the predominance of companies using share ownership schemes over the companies which do not introduce such schemes. In large companies their division according to the magnitude of work efficiency appears to be significant. This intuitive differentiation covers 5 ranges (Table 4).

Tab. 4: Percentage of companies in both groups (only large companies) and corresponding values of work efficiency.

Y/L in thousands PLN	companies with FP (%)	companies without FP
0-50	0,016129032	0,090909091
50-200	0,064516129	0,231404959
200-600	0,322580645	0,363636364
600-1000	0,193548387	0,157024793
>1000	0,403225806	0,157024793
	1	1

Source: own calculations

Chart 1. Percentage of companies with the division into ranges of work efficiency (in thousands PLN)



Source: table 4

As can be seen from the chart, the group of companies with FP contains most companies in which work efficiency is within the range of 200-600 thousand PLN and above 1 million PLN. In the group of companies without FP, the most numerous category is represented by the companies with a work efficiency of 200-600 thousand PLN. At the same time, companies with FP gain an advantage over companies without FP in the category of work efficiency above 600 thousand PLN per employee.

Conclusions

Despite the significant share of companies with employee share ownership in the overall number of privatized enterprises, this number is unfortunately decreasing and it is not known whether the government support programme of 20th October 2009 will change anything. Such a point of view is based on a few observations, namely: the visible lack of many legal solutions promoting the establishment and functioning of employee-owned companies (this also concerns, or maybe even mainly concerns transnational companies), lack of government support and a neutral attitude towards new challenges in the economy and world trends in the field of ownership changes, lack of systemic solutions in the field of supporting the capital participation of employees in their own enterprises, lack of more extended knowledge about the functioning of employee-owned companies in other countries and resulting from this an unwillingness to consider such solutions. What can be noticed in the economic reality of employee-owned companies is, on the one hand, the selling of shares by employees (minor shareholders), and, on the other hand, unwillingness to sell shares to external investors for fear of a takeover, dismissals, restructuring etc. The low awareness and low earning power of Polish society poses a significant obstacle on the way of popularization of this form of ownership.

Companies using various employees participation programmes constitute an important contribution to the practical development of the ownership system and supervision, in other words “*corporate governance*” in Poland. This system constitutes one of the elements of the *economic order* in any country. The employees’ company is an example of a legal-formal solution between two widely known and used models: the continental and Anglo-Saxon. Constituting a solution between the two, the employees’ company may successfully use the merits of the two and eliminate the drawbacks. The influence of employees directly interested in the company’s strategy and in managing it, by means of shares concentrated in their hands, makes it impossible for a “hostile takeover” or ineffective exploitation of the corporation (company) by the dominant investor (Bossak and Zelega 2001). On the other hand, corporate governance, as a “collection of good practice” provides the basis for effective action through enhancing the transparency of the management system, engagement and responsibility of the participants of the management process (Niewinowska 2002).

In most companies the employee share ownership becomes a management shareholding, while in companies in which the employees acquired up to 15% of shares most sold their shares at the first opportunity (Błaszczak 2001). Research shows that most Poles are in favour of share ownership in their companies, although lack of longer traditions and the less than positive experience of the last few years do not guarantee the fast development of employee share ownership in Poland¹. This is mainly connected with the perspective of acquiring profits by the employees, which, as suggested by the majority, seem to be too far ahead in the future, while the responsibilities are present at the very beginning of introducing specific participation programmes. The largest percentage of advocates of participation solutions are among people with vocational and secondary education (87% and 84%), a little fewer (80%) among respondents with higher education. The most common advocates of (87%) for shares being held by the employees are those employed in national companies (the reason for this view may be the 15% free share packet which is offered with company's privatization), although a similar percentage of support for this idea comes from employees of privately owned companies (86%).

Skilled labourers (88%) and management (82%) are in favour of share ownership by workers, while this is more rarely the case with companies' owners (62%). The supporters of share ownership in companies often stress that the employees owning shares will be able to feel the connection between the effectiveness of their work and the company's results, and thus with the value of their shares (46% of those questioned are of this opinion). In the group of people against employees owning their companies' shares it was often stressed that employees should be granted appropriately high wages and not given bonuses. This opinion was very often expressed by company's owners (90%) and the employees of privately owned companies (73%), along with the representatives of management (61%). Almost 33% of respondents who claim that the employees should not own their companies' shares think that they would not be allowed to decide about the company's fate in any case. One reason for the lack of support for employees participation was the divergence between the goals of the company's workers and its shareholders, a point often mentioned by unskilled labourers (42%), but rarely by management (12%) (Błaszczak 2001).

To promote financial participation some obstacles should be overcome through the appropriate legal framework, tax incentives and other financial advantages such as: increased flexibility of remuneration, reduced payroll expenses of the employer, motivating employees to increase their effort, making employees aware of the need to

¹ Research conducted for "Rzeczpospolita" daily by the PBS-DGA Research Agency (Pracownia Badań Społecznych) in Sopot on 12-13 May 2001 on 1,122 representatives of the adult population of the country, in: A. Błaszczak, *Niełatwo poczuć się właścicielem swojej firmy*, Archiwum Rzeczpospolitej Online, 21.05.2001, p.2

cut costs, make employees more willing to stay in a company, and reducing the risk for employer.

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