

**11th CONFERENCE OF THE INTERNATIONAL ASSOCIATION
FOR THE ECONOMICS OF PARTICIPATION (IAFEP)**

'PARTICIPATION WORLD-WIDE'

**Katholieke Universiteit Brussel – K.U.B.
(Catholic University of Brussels)
Brussels
4-6 July 2002**

**WORKERS' PARTICIPATION:
THE CASE OF THE REPUBLIC OF MACEDONIA**

**Ljubomir Drakulevski
(University 'Sts. Cyril and Methodius' Skopje, Macedonia)**

*Ljubomir Drakulevski, Ph.D.,
Assistant Professor
Faculty of Economics, Skopje
University "Sts. Cyril and Methodius"
Boulevard "Krstev Misirkov" bb
1000 Skopje
Republic of Macedonia
Phone: ++ 389 2 286 844
Fax: ++ 389 2 118 701
E-mail: drakul@eccf.ukim.edu.mk*

Workers' Participation: The Case of the Republic of Macedonia

(Abstract)

This article's focus is on workers' participation in the Republic of Macedonia. Workers' participation has a long tradition in our country. As an integral part of ex-Yugoslavia, the Republic of Macedonia introduced certain forms of workers' participation in managing bodies of enterprises during the 1950's.

During the last decade the Republic of Macedonia had to face a lot of development and economic problems that were imposed not only by the transition process transition, but also by the effects of the economic blockades, the dissolution of the common Yugoslav market, the military actions in the environment, etc. All these had negative implications upon the efficiency of the economy that had to find new alternative markets and new transportation routes.

The very bad economic situation and low wages did not allow the vast majority of workers to participate in the buy-out of the enterprises in which they were employed. Privatization of enterprises according to the Ante Markovic Law began in 1989, and continued with the implementation of the Law on Transformation of Enterprises with Social Capital from 1993. This Law created opportunities for a convenient workers' buy-out of enterprises and influenced a vast increment of the number of shareholders who have only a minor influence upon the management of firms. Therefore, the motivation for the employee-ownership is minor. At the same time there is a very strong tendency on the side of the shareholders to sell their shares in joined packages to foreign firms.

Although the privatization concept in Macedonia was based on several different privatization models, the most practically applied model happened to be the management buy-out. This article concentrates on the barriers to workers' participation caused by the current Law on Trade Companies.

Key words: Workers' Participation, Workers' Ownership, Corporate Governance, Privatization the Republic of Macedonia

Introduction

Workers' participation has a long tradition in our country. It was first introduced during the 1950's, while the Republic of Macedonia was still an integral part of ex-Yugoslavia. The self-management system and workers' rights were broadly discussed in the past. Therefore, the main task of this article is to analyze workers' participation after ten years of Macedonian transition.

During the last decade the Republic of Macedonia had to face a lot of development and economic problems that were imposed not only by the process of transition, but also by many economic blockades, the dissolution of the common Yugoslav market, the military actions in the environment, etc. All these had negative implications upon the efficiency of the economy that had to find new alternative markets and new transportation routes. However, it also had a strong influence upon workers' position within the firms and companies that had to face the above-mentioned problems.

1. Workers' Participation and the Law on Trade Companies

In order to accomplish the analysis of workers' participation it is necessary to make an overlook of the legislative solutions of the Macedonian system. Corporate governance in Macedonian enterprises is regulated with the Law on Trade Companies from 1996. According to this Law, joint-stock companies may choose one of the two possible management models: the one-tier system – Board of Directors, and the two-tier system Supervisory Board and Board of Management.

Within the one-tier management model, the Company Assembly, as the highest body, has the right to appoint the non-executive directors of the Board of Directors. In companies with less than 300 employees, some of the non-executive directors can be selected from the range of employees of the company, if it is provided by the Charter. If the majority of employees are against such a possibility, than the employees do not appoint members of the Board of Directors. The non-executive members of the Board of Directors elects the executive members of the Board with majority votes. The total number of directors is between 5 to 15, whereby the number of the non-executive members is bigger

than that of the executive members.

Within the two-tier management system of the companies the Company's Assembly names a Supervisory Board, which has the right to name the Board of Management of the company. The members of the Supervisory Board are appointed by the Company's Assembly in companies with less than three hundred employees. The employees may appoint members of the Supervisory Board, if so provided by the Charter in companies with three hundred or more employees. The Supervisory Board supervises the work of the Board of Management, which is managing the joint-stock company. The Supervisory Board may inspect and check all books, documents, records and property of the company, particularly the company's cash box, securities and goods.

It is obvious that the legislation enables broad freedom of enterprises in the sphere of their management bodies' rights and duties. Workers' competence and workers' participation can be separately analyzed. There is a possibility for facultative participation of the employees in company's management by choosing one or more non-executive directors of the Board within the one-tier management model or by choosing their representatives in the Supervisory Board within the two-tier system of management. The voting right belongs to representatives of employees that have at least two months of working experience within the firm. The employees that could be elected as members of the above mentioned bodies should have at least two years working experience in the company. Though, such an opportunity for workers' participation is provided only for joint-stock companies and public enterprises with 300 or more employees. The total number of such companies in the Republic of Macedonia is about 150. Only they have the opportunity to provide the possibility for workers' participation in decision-making. This is practically avoided, considering the fact that the management prepares the reports that should be submitted to the Company Assembly and usually does not provide workers' participation throughout this process. Even if there is such a decision for electing employees for the management bodies, the possible number of employees' representatives according to the Law is limited to 1/4 of the total number of the non-executive directors of the Board of Directors, i.e. from the number of the members of the Supervisory Board. By firing these representatives from work, terminates their mandate in the management bodies, which points out the restricted access of employees' participation in the company's management. Having in mind that the ex-socialist self-management system provided the possibility of participation of all the employees by the process of decision making through decisions

made at the Workers' Assembly and Referendum, or through workers' representatives in the management bodies, the present solutions of the Law on Workers' participation are too restrictive. They are limited only on supervision and control of the working process without any major influence upon the decision-making process. These provisions of our legislation are even more restrictive than those implemented in the developed western economies.

2. Privatization

With passing the Law on Social Capital of SFRY in 1989 began the process of privatization of enterprises with social ownership in the Republic of Macedonia. The privatization process continued with the implementation of the Macedonian Law on Transformation of Enterprises with Social Capital from 1993. This Law provided a commercial privatization on case-by-case approach. It offered different models of transformation and the managers and employees of firms should choose the most appropriate one. The aim of this privatization was not only transformation of the socially owned capital, but also it should provide:

- Increment of management efficiency;
- Increment of the efficiency of the economy,
- Foreign capital inflow,
- Development of capital market,
- New possibilities in servicing the internal and external debt of the country, etc.

The system of socialist self-management and employees participation in management of firms in the previous system contributed for a better position of employees in the privatization process. This should confirm that employees had an important impact upon the successfulness of the firms and that therefore they should obtain benefices during the transformation of the social capital. As a special benefit that was provided by the law was allowance of a discount of 30% of the estimated value of the enterprise for each employee and an additional discount of 1% for each year of engagement within the enterprise. Each employee could buy shares of the company at a discount rate up to 25.000 DM. Payment could be made without down payments in five-year installments and with a grace period of two years. Such a benefit was provided especially in the case of

small enterprises, while in the privatization process other models could be used in the privatization process, which according to government opinion could enable a quick and just privatization.

Today the process of transformation of the socially owned enterprises is in the ending phase. In order to understand the influence of the privatization process upon the workers' participation we used data on privatization from the Agency for Transformation of Enterprises with Social Capital of the Republic of Macedonia. Table 1 shows the structure of enterprises that have accomplished the privatization process up to the 31 of December 2001 by the implemented model of privatization.

Table 1 *Number of privatized companies by model of privatization*

<i>Model</i>	<i>Companies</i>	<i>Employees</i>	<i>Equity EUR</i>
1. Old Law		66	11.522
2. Employees Buy-Out		394	17.155
3. Sale of Ideal Part		185	25.019
4. Management Buy-Out		239	71.728
5. Leasing		4	217
6. Additional Capital		27	7.620
7. Residual		28	14.717
8. D/E Conversion		91	23.060
9. Foreign Equity		155	1.843
10. Private Equity		142	4.842
11. Liquidations		169	1.089
12. Buy-Out		178	50.339
TOTAL	1678	229.151	2,324,191,235

Source: Agency for Transformation of Enterprises with Social Capital of the Republic of Macedonia (31st of December 2001)

Up to the 31 December 2001 firms were privatized 1678, and there were 89 more that were waiting to enter this process. The structure of the up-to-date privatized firms is the following:

Table 2 *Number of Privatized Companies by Size*

Size	Number of Companies	Equity in EUR
Large	264	1,632,171,547
Medium	330	466,618,675
Small	1,084	225,401,014
TOTAL	1,678	2,324,191,236

Source: Agency for Transformation of Enterprises with Social Capital of the Republic of Macedonia (31st of December 2001)

Table 3 Privatization Transactions Finished by March 31, 2002 by Industry

Sector	Number of Companies	Number of Employees	Equity in EUR
Manufacturing	496	137,511	1,463,084,502
Agriculture	425	20,307	200,865,667
Construction	123	31,877	122,064,109
Trade	350	17,670	257,516,861
Transport & Traffic	53	7,322	40,487,853
Finance & Services	114	7,338	122,526,796
Craft	55	2,914	24,978,211
Catering & Tourism	62	4,212	92,667,237
TOTAL	1,678	229,151	2,324,191,236

Source: Agency for Transformation of Enterprises with Social Capital of the Republic of Macedonia (31st of December 2001)

The tables above show that the value of the privatized capital is estimated on 2.324.191.235 EUR. Most of the enterprises are privatized according to the employee's buy-out model. Using this model 398 firms with 17155 employees were privatized, which is 23,48% of the total number of enterprises. The wide usage of this model is explained with the benefits that were provided for the employees in the purchase of the shares and the possibility of choice of the transformation model of the social capital in the firm in which they are working. Still, analyzing the value of the privatized enterprises it is obvious that their total value is 3,42% of the total value of privatized capital in the Republic of Macedonia.

The second most applied model was the management buy-out that was used in 239 enterprises that employed 71728 employees, i.e. this is 14% of the total number of privatized enterprises. One should have in mind that the management structures under the previous system were treated as employees within firms. Therefore, this model also provided discounts for the purchase of shares, as well as the right to choose the privatization model. Management-buy out was used in the most successful firms in the country, because the management teams used the advantage of possessing information on firms and the opportunity to choose the privatization model.

The third model by the number of privatized enterprises was the sale of an ideal part of the enterprise which was applied on 185 enterprises with 25019 employees, which was 11,03% of the total number of firms.

The next was the buy-out model that was applied in 10, 61% of the privatized firms with 50339 employees. The last two models were also implemented by the managers and employees of the firms.

The analysis of the value of the privatized capital reveals even much more interesting results. According to this analysis the most dominant model is the management buy-out model. This model was used for the privatization of enterprises with total value of 708.184.354 EUR or 30,17 % of the total companies' value in the Republic of Macedonia. According to the buy-out model are privatized enterprises with total value of 535.756.343 EUR of equity, or 23,05 % of the total companies' value, what makes this model the second most important one in the privatization processes in the Republic of Macedonia. The buy-out of an ideal part of the enterprises came on the third place with 316.516.388 EUR or 13,62 % of the total companies value. The model of employees buy out was used in only 3,42 % from the total value of the privatized capital which points out the low level of employees participation in the total privatization process in the Republic of Macedonia.

When speaking about the privatization in the Republic of Macedonia and workers' participation in the management we should point out the following:

- Over 75 % of enterprises were privatized by insiders' participation, which was a result of the models provided with the Law on Transformation of Enterprises with Social Capital that perceived a preferential treatment of employees and managers for choosing the privatization model that was considered to be the optimal one for their firms;
- This was enforced with the possibility for altering an applied privatization model

that was proved to be an unsuccessful one. The alternation of the chosen privatization model should be previously discussed and approved by the Agency for Transformation of Enterprises with Social Capital. In most of the cases the privatization process began with choosing the management buy-out model, and if it was not successful it was substituted with the employees buy-out model.

- There were legal constraints for a free access of shareholders on the market before 1998. In that period Line 2 from Article 302 from the Law on Trade Companies was terminated. It limited the right for free purchase of company's shares without approval from the management. The management could use this right for putting various pressures upon the employees in order to make them give away their management rights. After the introduction of the changes of the law, the power was transferred to the Company's Assembly. The changes enabled free employees' access to the Stock Exchange that created better opportunities for more efficient management and control over the firms.

Today in Macedonia there are over 250000 shareholders and most of them are presently employed or retired in the privatized firms. This number would have been even greater if the 100000 employees from the administration had gained the right to participate in the privatization process of the public enterprises and organizations in which they were working. Having on mind that the actual figure of total number of employees in the country is 300000, one could easily conclude that there is a process of deconcentration of the capital among a vast number of employees. Such a great dispersion of ownership creates a lot of problems in the domain of the establishment of the corporative control within the firms.

3. The Foreign Capital and the workers' participation

Foreign capital entered only in a small number of Macedonian companies. However, all of the cases of firms with foreign capital confirm that foreign investors took the control over management in their hands. Practically, foreign investors entered only those firms where they could purchase minimum of 51% of the total package of stocks, which will enable them to have a complete freedom of management within the company. This was

considered to be the best solution concerning the ownership, control and efficiency of the company, as it is supposed that the owner is going to act on the most rational basis and thereby he will provide success both for the company and for himself.

It is interesting to point out that in most of the cases of the companies with foreign capital the old management team signed a special contract for its further engagement in a five-year period of time. This is a confirmation for a friendly over-taking of companies, which is of interest of both of the parties.

In several cases of foreign takeovers of some very successful firms in Macedonia, such as: the cement producing plant *Usje*, the marble industry form Prilep, *Zito-Luks* from Skopje, the brewery from Skopje etc., the employees sold their stocks in package on the Stock Exchange to the foreign partner, while the management of the company kept its share of stocks. In such cases the management of the company is an intermediary between the foreign partner and the employees in price determination of the stocks and the method of their realization on the Stock Exchange. When the package of sold stocks provides management rights in the company, than the purchase is effectuated without any bidding on the Stock Exchange.

All these cases were characterized with forceful pressure from the side of the management upon the employees in order to implement the transformation strategy and enable foreign purchase of the firms. Usually the employees refused to sell their shares. However, the bad economic and social position of the workers, and the great number of unemployed in the country (about 40%) demotivated the workers to persist on their ownership positions in the firms and stimulated them to sell their shares that were purchased with discounts for lower prices. Most of the employees were not in position to buy the shares that were offered with a discount of 30%. Analyzing data from the year of 2000 it is obvious that 22,3% of the population in the Republic of Macedonia is living on substandard terms considering the basic welfare needs.

Foreign partners, regardless from their origin, oppose any workers' participation in decision-making, and negotiate the possible discounts and other benefits of the overtaking process with the management of the firms.

4. Workers as Minority Shareholders

Workers' participation has a special place considering the ownership over companies' shares. We have to point out that usually there are no outside members within the managing bodies of companies controlled by insiders. This fact is considered to be the main source of the tremendous power of the general director of such companies. The common characteristic of the Macedonian management is centralized organization with autocratic style of management. General directors imposed themselves as leaders in a certain period of the transition when they managed to transform the company, however they do not let anybody to take their place (in fact this change could cause a lot of costs for the company). The powerful position of the directors led to creating barriers to legal opportunities for workers' participation in the decision making process. Even more, it is directed towards creating various forms of pressures over the employees in order to make them sell their shares to the firm's management. On the other hand, the non-existence of shareholding tradition and the poor level of development of the Macedonian Stock Exchange (first established in 1995) are the source of certain problems connected with the understanding of the rights and obligations of the owners and the managers. During the previous period there were cases when company's bodies made decisions that were not in favor of the shareholders. At the same time, the shareholders were not in a position to intervene either because they did not understand the essence of shareholding, or because of not having access to data on the structure of the company's capital, which were in the hands of the management. In most cases the management of the firm does not allow access to data on capital structure and, it also prevents shareholders to take place at the Company's Assembly. Such an example is the case of *Makedonija Tabak* where 25% of the shareholders were prevented to take place at the Assembly. Those problems should be overcome by the introduction of the Central Securities Depository, as well as by connecting the domestic with foreign Stock Exchanges.

Recently there is an emerging problem in the domain of employees' ownership of shares and workers participation. This is the case when small shareholders are determined to prevent the entrance of owners of the control package of shares of the company. Shuch an example is the experience of the firm *Lozar Bitola*, where the employees are prepared to defend the company from the new owners and where they have undertaken a legal procedure on proving the management right of the company. The procedure is lasting for over 6 months now and is still far from its final solution.

5. Workers' Union Organization

Considering workers' participation, we also have to analyze the roll of the Union. By changing the economic, political and social system, the Union was promoted as workers' organization that fights for the economic and social interests and rights of its members, social justice and respect of human dignity, humanism and solidarity, welfare and progressive democratic development. The Union is developed as an autonomous, independent workers' organization according to the European models and practices of union organization. The Unions' Association of the Republic of Macedonia at present is a federation of 18 branch Unions united on voluntary basis for representing the mutual economic-social interests of their membership. The branch syndicates have a very high level of independence and are organized on industrial (branch) basis.

However, the main conclusion here is that the transformation process of the one-party system to parliamentary democracy did not provide any opportunity for a better position of the Union within the community, which will impose its interest for protection of workers' rights upon it. Namely, under the one-party system the Union provided support of the existing ideology and the established system and did not have any role as workers' rights protector. During the transition process the Union is developing gradually and step by step it takes its place as a social partner to the Government. In 1990 and 1992 it ratified the Social Collective Agreement with the Government and the Chamber of Commerce of the Republic of Macedonia, and in 1996 initiated the establishment of the Socio-Economic Council of the Republic of Macedonia. The Union made a major contribution in the process of definition of certain solutions of the Law on Transformation of Enterprises with Social Capital from 1996. This Law put an accent on employees' share-ownership and better terms for employees' buy-out of enterprises.

However, the crises in the country, various blockades, military actions in the environment, etc, weakened the competitive position of enterprises, and thereby weakened the economic strength of the employees within the enterprises, which eliminated the possibility for adequate usage of the opportunities provided by the Law on Privatization. Under such circumstances the provisions of the Law on Privatization went in favor of firms' managers who made a pressure upon the employees to choose a privatization model that mostly suits them (the managers buy-out). The introduction of the shareholdership as

a completely new experience in our country was a source of various speculations, abuse and manipulation of the shareholders' rights by the firms' management. The Union did not manage to impose itself as a partner of the Government in order to protect the rights of the workers during the privatization process and the creation of the solutions of the Law on Trade Companies, though it was engaged in initiating the process of providing control and revision of completed privatizations of certain companies.

Conclusion

During the last 10 years there is a process for elimination of the opportunities for workers' participation in decision making within the companies in the Republic of Macedonia. This is a result of the implementation of the Law on Trade Companies of the Republic of Macedonia that limits the right of participation of the employees in management bodies and the decision making of 1/4 of the members of the Supervisory Board, as well as of the non-executive members of the Board of Directors. This issue is valid only for the big companies that employ more than 300 people, if provided by the Charter of the company. The latest proposed changes of the Law on Trade Companies goes further eliminating even this minimal possibility for participation explaining that the companies (the management) should consider what is necessary for their efficient working. The Law on Transformation of the Social Capital in the Republic of Macedonia enabled great discounts for the employees' purchases of firms' shares. However, the bad economic situation and the poverty in the country contributed this not to be realized in the way it was planned and perceived. The cases of pressures upon the employees that should make them sell their shares to the managers or to foreign firms are not rare. Because of the applied privatization models there is a substantial dispersion of the capital, which means that the employees possess a small portion of the shares, and the underdeveloped shareholder ship contributes for poor protection of their rights and demotivates further purchase of the shares. The Government is trying to put order in the evidence of the shareholding structure, however there is great resistance on the side of the management. The management bodies of firms consist of managers who are at the same time the greatest shareholders, which is further used for new purchases of the employees' shares with

financial means of the company.

Foreign capital has entered only a small number of the companies and it always has such a participation that provides foreign control over the company. Most of the cases of entrance of foreign capital in Macedonian firms were on the basis of a friendly take-over, and the management of the firms had to convince the employees to sell their shares to the foreign partner.

All this time the Union did not manage to enforce itself as a social partner of the Government. Though, during the last few months there has been a much more vivid activity of the Union that has new leadership and it has already managed to improve some of the workers' rights, as it was the case with the minimal wage rate. Therefore, it could be expected that in very near future the Union will be intensively involved in protection of workers' rights in various domains.

Literature:

1. *Annual Reports*: The Agency for Transformation of Enterprises with Social Capital of the Republic of Macedonia
2. Law on Trade Companies, 1996
3. Law on Transformation of Socially Owned Enterprises, 1993
4. Ljubomir Drakulevski: "Managerial Style in Transitional Economies: The Example of The Republic of Macedonia", *Eastern European Economics*, November - December 1999, pp. 26-34
5. [Http://www.finance.gov.mk/](http://www.finance.gov.mk/)
6. Vincent Edwards & Peter Lawrence: *Management in Eastern Europe*, Palgrave Publishers Ltd., Hampshire, 2000
7. 16-ti Kongres na SSM, Ohrid, 23-23 Mart, 2002 (16th Congress of the Union of the Republic of Macedonia Ohrid, 23-23 March 2002)