

HISTORICAL OVERVIEW OF THE EMPLOYEE'S SHAREHOLDERS IN THE REPUBLIC OF MACEDONIA

Blagoja Spirkoski

FON University – Skopje, Republic of Macedonia, blagoja.spirkoski@fon.edu.mk

Radica Dishlieska Gramatikova

FON University – Skopje, Republic of Macedonia, radica.dishlieska@fon.edu.mk

Abstract: The purpose of this paper is to investigate the relationship between workers and managers during the processes of transitions and privatization in the Republic of Macedonia. The major research question of this paper is: why employee's shareholders and the management of the Macedonian company failed to establish good cooperation between themselves to satisfy the principles of effectiveness, efficiency and justice?

Our findings suggest that the main problem in this co-operation between the employee's shareholders and the managers was equalization of the initiatives between them. The initiatives must be appropriate, so that the labour force and the management can find common interest in working in the company – and consequently share the risk and determine the level of the employment of the capital and labour force which contributes to the permanent development of the company.

The results of our research in Macedonian companies have shown that employee's shareholders have been disappearing because significant majority of Macedonian managers is become owners of the company, while not being good managers at the same time.

Keywords: cooperative enterprises, labour-capital partnerships, employee ownership,

1. INTRODUCTION

In enterprises with employee share ownership the workers and managers on the same side as owners of the share ownership, obtain a role completely different of their "natural role" according to classical division of labour.

play an important role in any pay plan, employers and managers use performance-based incentives to motivate employees. Employers use long-term incentives to inject a long-term strategic perspective into their executive's decisions. Popular long-term incentives include cash, stock, stock options, stock appreciation rights, and phantom stock. Although about 85% of large employers reportedly use some type of group- or team-based incentives, "many employers take the team incentive idea to the next logical level and institute incentive plans in which all or most employees participate,... organization-wide incentive plans are plans in which all or most employees can participate, and which generally tie the reward to some measure of company-wide performance."¹³

Profit-sharing plans are plans in which all or most employees receive a share of the annual profits. There are several types of profit-sharing plans. ESOPs¹⁴ are company-wide plans in which the employer contributes shares of its own stock to a trust established to purchase shares of the firm's stock for employees.

ESOPs, profit sharing plans, and stock bonus plans are all governed by the Employee Retirement Income Security Act, in the USA. They all have the same rules for eligibility, allocation of benefits, and vesting. Contributions to all the plans are tax-deductible.

ESOPs have substantial additional tax benefits beyond the deductibility of contributions, most notably the ability of sellers to certain ESOPs to defer capital gains taxes. Also, only ESOPs can borrow money on the credit of the company to buy employer stock. Stock bonus and profit sharing plans have somewhat less restrictive rules than ESOPs.

The end of 2015, the [National Centre for Employee Ownership](#) (NCEO) estimated there are roughly 7,000 employee stock ownership plans (ESOPs) covering about 13.5 million employees in the USA. Since the beginning of the 21st century there has been a decline in the number of *plans* but an increase in the number of *participants*.

¹³ Dressler Garry, Human Resource Management, 13th Edition, Pearson, 2013, pp. 409

¹⁴ See more Scott Rodrick: An Introduction to ESOPs, 14th edition, by the National Center for Employee Ownership (NCEO), 2014

According to NCEO, there are about 2,000 profit sharing and stock bonus plans that are substantially invested in company stock and are like ESOPs in other ways. In addition, it estimates that roughly 9 million employees participate in plans that provide stock options or other individual equity to most or all employees. Up to 5 million participate in 401(k) plans that are primarily invested in employer stock. As many as 11 million employees buy shares in their employer through employee stock purchase plans.

Eliminating overlap, NCEO estimate that approximately 28 million employees participate in an employee ownership plan. These numbers are estimates, but are probably conservative. Overall, employees now control about 8% of corporate equity in the USA. About two-thirds of ESOPs are used to provide a market for the shares of a departing owner of a profitable, closely held company. Most of the remainder are used either as a supplemental employee benefit plan or as a means to borrow money in a tax-favoured manner.

ESOP-like plans are defined as profit sharing, stock bonus, and other defined contribution plans that are substantially (at least 20%) invested in employer stock, and have at least five participants. Each kind of plan provides employees with some special consideration in price or terms.

In recent decades governments also EU “have sought to encourage such schemes and have actively promoted their establishment with advantageous tax arrangements”¹⁵. Actually, underlying government support is the belief that linking pay to profits increases the employee’s commitment to his or her company by deepening the level of mutual interest.

2. MANAGERS AND EMPLOYEE’S SHAREHOLDERS IN PROCESS OF PRIVATIZATION IN REPUBLIC OF MACEDONIA

The employee shareholders existed in Macedonia before the process of privatization, as a part of process of privatization in former Yugoslavia. That process was dependant on relationship between two actors - managers and workers in the case of the Macedonian process of privatization. By we had only two actors in process of privatization in the Republic of Macedonia? Because the owners of social enterprises - the state - there was only an administrative role in the privatization process. The managers and employees had right first to buy the shares of the companies. The relations among those two actors had depended social and develop in two directions:

First, to the mutual interests and deals as one body, in attempt to create one new enterprising firm within levelling the initiative between them they created the strategy management orientated company.

Second, managers as shareholders have tried to return ownership control in firms and in that case their existence and develop based on the principles of the classical capitalist enterprise, created the conditions for marginalisation and disappearing the employee shareholders.

In many enterprises with employee share ownership in Macedonian companies second directions. There are very seldom examples where we can find the enterprises with articulate interest between employers, managers and employees, as relations in ESOPs.

In many enterprises with employee’s ownership in Macedonian the connection among employees and managers faced distrust.

distrust, important to relationship between employees as shareholders, in the case of the Macedonian enterprises.

There are very seldom examples where we can find the enterprises with articulate interest between employers. Namely, they seldom attack as one body ahead of the board of directors.

The employee shareholders during privatization process not good organisation and that is result of the following facts:

1. During the transition managers have unlimited command without control by the state or any subjects or body within enterprises. If the supervisory board existed in some joint-stock company was by the proposal of the managers and in many cases that didn’t function. This situation has contributed to increase the impossibility for any kind of organisation the employee in conditions of the mass unemployment and daily bankrupts of enterprises.
2. In conditions of not existing stock exchange and also culture for financial markets, employee shareholding helpless and not organised.

¹⁵ Derek Torrington, Laura Hall, Stephen Taylor and Carol Atkinson: Human Resource Management, 9th edition, Pearson Education Limited, 2014, pp 444.

3. Employee shareholders during the process of privatisation and growth often obtain incomplete information.
4. The population employed in the public administration was excluded from the privatization process.
5. The legislator provide form of interest association - as employee share ownership trust - as the second legal entity within enterprise, where one part or all employee will join own interest or will channel own interest.
6. No political party in Republic of Macedonia with own political action contributed protection and improvement employee shareholder. The main political parties, the employee shareholder as going over phase process of capital concentration.
7. The Trade Union of Macedonia, as many other social organisations, makes certain steps in mobilisation of the employee's shareholders, but their effects are small because they are alone in this action.

The Macedonian managers, however, are not ready to face with employee shareholders. They lack practical experiences of the employee's shareholders in the world. The confusion is bigger when the society has not clear vision for further existence and development of the employee shareholding.

Actually, the managers in many companies, following the old system and current problems to secure existing on the market, they increased the level of bureaucracy in making and achieving the decisions, instead of realising the need of qualitative change of their own attitude in terms of privatisation of the ownership in their company.

the central question: can employee's shareholders and management operate efficient and fair? Or : can employee's shareholders and the management cooperate between themselves to satisfy the principles of efficiency and justice?

problem in this co-operation between the employee's shareholders and the management, in terms of fair redistribution of the capital is equalisation of the initiatives between them so that the efficiency would be maximised. The initiatives must be appropriate, so that the labour and the management will find common interest in working in the company - to share the risk and to determine the level of the employment of the capital and labour which gives permanent development of the company.

The success in management with employee share ownership enterprise will depend on understanding the function of different roles for all employees. For example, to between management (strategic and tactics) and operative direction in achieving different .

very important to remember the words of Patrick Donald. He wrote: "The different roles on the employees - as workers and owners have to be implemented in the structure of the enterprise, which gives workers opportunity to use the rights of owners, and in same time gives freedom on the management to work efficiently".¹⁶

In the employee shareholding there are some difficulties in their function, but they character of employee share ownership. Namely, the number of enterprises in Republic of Macedonia with employee share ownership that are bankrupt, as a result of discordant adjustment of the market exchange, lost the market, overemployment, insufficiently educated management and etc..

With appearance and growth of the employee share ownership a possibility to build a new enterprising firm and with that also economic system based on the humanistic economic philosophy, based on these principles:

1. Human resources are the most important factor of production and are the ultimate origin of the market value of all goods produced;
2. People, unlike non-human resources, are intellectual (intelligence-carrying) beings in that they are capable of thinking, annualising, inventing, innovating, and developing information vital for the creation of wealth;
3. People are psychological (emotional) beings whose productivity may rise or fall depending on whether they are motivated or demoralised by their work environment.¹⁷

The base value of the now humanistic enterprising system in which labour and management are playing the main roles, is based on following:

- sharing (right, responsibility, risk, information and of their work);

¹⁶ Patrick D: "Managing own company", Job Ownership LTD, Landon, 1995, pp 11-12

¹⁷ Robert S. Ozaki: "Human Capitalism", Kodansha International, Tokyo, 1991, pp.10

- participation and co-operation;
- recognise the people as intellectual and as psychological beings; and
- review on the enterprise as economic and as social organisation.

In this economical system the managers and the employees identify themselves with their company. As a result of their evolutionary development, highly developed countries created real presumptions for the beginning of creation of social market participatory economical system and they build new styles of management.

In the countries which were in transition these processes had more manifesting than essential character? Namely, during the process of transition companies characterised knowledge in management and low accumulative ability. They also were to accept the classical development of the capitalism faster, experiment with the employee shareholding and strategic thinking. This kind of social reality has been in the Republic of Macedonia too.

In the companies which have privatized in Macedonia, the employee ownership were with different percent in the structure of the capital in the company. According to this criterion, they can (conditionally) in these groups:

1. Companies with total employee ownership or with significant participation of the employees in the capital of the company.
2. Companies where the package of shares belongs to the manager's team and where the participation of the employees in the capital of the company is small.
3. Companies which belong to insiders (employees and managers) and outsiders (people from outside who are owners of the biggest part of the capital in the company).

In all these companies the employee ownership has been developed differently and main factor has been the ability of the company to make profit which will be reinvested in the same company, so that have been created real conditions for their growing.

In those companies which were not capable to modernise the technical-technological equipment with their own accumulation, in debts or outsider's which can create real chances for losing the independence of the company, because sooner or later the investment of the outsider can become dominant. Thus, there is a real danger to reduce or to disappear completely the employee shareholding in these companies.

Another important factor for the further existence of employee shareholding is the relationship between employee's shareholders and the managers. The development of the relations between them will be depending on their interest to build a stable company with long-term perspective, which will produce permanent work security and fair rewarding.

These relationships can be developed, if "every employee must be literally overwhelmed with the idea for the quality of each aspect of the business, and everybody must work continuously to improve the products and the services, as well as the production systems and processes."¹⁸

The following of these principles need a level of culture which makes the management more responsible task than a privilege, where the duty of the managers is to take care for good preparation of the employees. All this creates a horizontal structure of managing which is directed to the clients.

The companies in the first group, especially when there exists real an exchange stock, when they want to keep the function of control in their hands, they have to make a deal for limitation or prohibition of the selling plan shares to outside people. The shareholders and the Board of directors in the deal must predict special rules in case when shares change their owner. For example, if the employees leave the company or if they retire on a pension, then, they have an obligation to regulate the functioning of the inter market of share, as well as to ensure fair trade price of shares, which depends of the supply and the demand of shares in the company.

The practice in these cases distinguishes two ways for selling the shares:

- the shares can be bought by other employees, and
- the only one who sells and buys shares is a special fund so called a trust, which is created with saving money from the net profit and controlled by specially formed Board of employees.

Only Federation of Trade Unions of Macedonia (SSM) together with Job Ownership Ltd ("JOL") from the UK, had tried to propose certain amendments to the Law on Commercial Law, that will be allowed in companies can staff to set up the Internal Trust Fund as a second legal identity within the company, in the 1999. It would enable worker's common shareholders to protect their interests from various pressures. Nevertheless, the Macedonian

¹⁸ Patrick D.: "Managing own company", Job Ownership Ltd, London, 1995, p.15-16

Parliament rejected these proposals and created conditions for the gradual disappearance of the workers' shareholding in the country.

The manager teams, especially those from second and the third group of companies, and also in first group of companies there was a big pressure for gradual taking over of the company, by using different kinds of pressures and dishonest methods (blackmail, threat, act.) on the employees shareholders, in order to sell their shares with very low prices or to give the shares to arrogant managers, in order to keep their jobs.

In these companies the employee shareholding disappeared, because nobody had taken appropriate steps to protect the rights of employees as stockholders. In early stages of process of privatisation, this protection had realised only by the Federation of Trade Unions of Macedonia (SSM), but without satisfy results.

SUMMARY

There was a big pressure for gradual taking over of the compan from managers or managers teams, by using different kinds of pressures and dishonest methods (blackmail, threat, act.) on the employee's shareholders, in order to their shares with very low prices or to give the shares to arrogant managers, in order to keep their jobs. The employee shareholding gradually disappears, because nobody had taken appropriate steps to protect the rights of employees as stockholders.

LITERATURE

- [1] Derek Torrington, Laura Hall, Stephen Taylor and Carol Atkinson: Human Resource Management, 9th edition, Pearson Education Limited, 2014;
- [2] Dressler Garry, Human Resource Management, 13th Edition, Pearson, 2013;
- [3] Patrick D.: "Managing own company", Job Ownership Ltd, London, 1995;
- [4] Robert S. Ozaki: "Human Capitalism", Kodansha International, Tokyo, 1991
- [5] Scott Rodrick: An Introduction to ESOPs, 14th edition, by the National Center for Employee Ownership (NCEO), 2014;
- [6] John Case: "Employee Ownership, Building a Better American Economy", NCEO, 2017;
- [7] Vaughn Gordy, Neal Hawkins, Mary Josephs, William Merten, Rebecca Miller, Scott Rodrick, Corey Rosen, and John Solimine: "Leveraged ESOPs and Employee Buyouts", NCEO, 2013.
- [8] Bill Brett, Christopher J. Clarkson, Ronald J. Gilbert, Stacie Jacobsen, Nathan Nicholson, Loren Rodgers, Corey Rosen, Paige A. Ryan, Kenneth E. Serwinski, and Brian B. Snarr: "Selling Your Business to an ESOP", NCEO, 2017