

WPS 0664

Policy, Research, and External Affairs

WORKING PAPERS

Public Sector Management
and Private Sector Development

Country Economics Department
The World Bank
May 1991
WPS 664

Should Employee Participation Be Part of Privatization?

Barbara W. Lee

Employee participation has grown rapidly in many developed countries, but it is only beginning to emerge as an element in the economies of developing nations. Evidence shows that employee ownership and other forms of employee participation can ease privatization.

This paper — a product of the Public Sector Management and Private Sector Development Division, Country Economics Department — is part of a larger effort in PRE to assess the lessons of experience in privatization. Copies are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Gloria Orraca-Tetteh, room N9-069, extension 37646 (26 pages).

Employee participation in the financial and managerial aspects of firms has increased as governments and owners have tried to enhance productivity, broaden ownership, or facilitate privatization transactions.

Many developed countries are experiencing rapid growth in schemes to introduce or enhance various forms of employee participation. For example, about 11,000 firms employing 11 million workers in the United States have some form of stock ownership for employees. About 10 percent of all employees in the U.K. are eligible to participate in share ownership plans.

An estimated 500,000 employee profit-sharing plans exist in the U.S., and participatory plans are a major element in the industrial policy of such countries as Japan and Sweden. In developing countries, plans for employee participation have emerged only recently.

The effect of employee participation schemes on firm performance is mixed. Without privatization, evidence is strong that combining

employee ownership or profit sharing with some direct participation produces a positive impact on firm performance. Under privatization, by contrast, there is no evidence that employee ownership alone will contribute to improved performance.

Employee ownership and other forms of participation do appear to ease privatization. Employee ownership provides a sense of security to employees that the risk of redundancy in the firm after privatization will be less. As a result, the opposition of labor may decrease.

Where layoffs do occur after privatization, share ownership may complement a severance package. Share ownership also may mute worker opposition to privatization in those countries where employees believe that they have some right to ownership in the firm, primarily in socialist and post-communist countries.

The PRE Working Paper Series disseminates the findings of work under way in the Bank's Policy, Research, and External Affairs Complex. An objective of the series is to get these findings out quickly, even if presentations are less than fully polished. The findings, interpretations, and conclusions in these papers do not necessarily represent official Bank policy.

Table of Contents

| | | |
|------|--|----|
| I. | <u>Introduction.....</u> | 1 |
| II. | <u>What is Employee Participation?</u> | |
| | Employee Ownership..... | 2 |
| | Profit Sharing | 5 |
| | Participation in Decision-Making..... | 6 |
| III. | <u>Costs and Benefits of Employee Participation</u> | |
| | Efficiency..... | 9 |
| | Financial | 10 |
| IV. | <u>Examples of Employee Ownership in Privatization</u> | |
| | SOE Sectors..... | 13 |
| | U.K..... | 13 |
| | France..... | 14 |
| | Korea..... | 14 |
| | Argentina, Poland, Sri Lanka..... | 15 |
| | Enterprises..... | 16 |
| | National Freight Consortium, U.K..... | 16 |
| | National Commercial Bank, Jamaica..... | 17 |
| | Summary of Examples..... | 18 |
| V. | <u>Assessment</u> | |
| | What Can Employee Participation Accomplish?.... | 19 |
| | Relevance to Bank Borrowers..... | 21 |
| | General | 21 |
| | Socialist Economies in Transition..... | 23 |

References

SHOULD EMPLOYEE PARTICIPATION BE A COMPONENT OF PRIVATIZATION?

I. INTRODUCTION

Employee participation in financial and managerial aspects of the firm, long on the fringes of debate, has recently moved into the forefront of policy discussion. Schemes to introduce or enhance employee participation have become a large presence in the industrial sectors of many developed countries: 11,000 firms (with 11 million workers) in the U.S. have some form of stock ownership program for employees¹; 10% of all employees in the UK are eligible to participate in a share ownership scheme²; some 500,000 profit sharing plans exist in the U.S.³; and participatory schemes are a major emphasis of industrial policy in countries such as Japan and Sweden.⁴ In developing countries, efforts along these lines have only recently emerged, most frequently in the context of privatization.⁵ With little track record, there are few guidelines for the applicability of existing schemes to the developing country context, together with or in the absence of privatization. The purpose of this paper is to shed light on the applicability issues by examining the general record of employee participation to date (with emphasis on employee ownership); reviewing specific examples of such schemes being proposed and implemented in conjunction with privatization; and weighing the utility of employee participation schemes in Bank lending operations.

Employee participation has been introduced to fulfill an array of objectives. Among them are: (i) enhancing productivity, (ii) avoiding enterprise bankruptcy, (iii) broadening the distribution of ownership and (iv) facilitating privatization transactions. Participation schemes have also been implemented under a variety of guises, for instance, employee ownership share plans (ESOPs), employee owned firms, profit sharing plans, worker councils, quality circles, and the like. This proliferation of objectives and mechanisms has led to some confusion concerning what these schemes are and what they can accomplish. This paper begins by addressing these issues.

1. The Washington Post (Business Section), October 12, 1990.

2. Blanchflower and Oswald (1987), pg. 2.

3. See Blasi in Blinder (1990).

4. See Levine and Tyson in Blinder (1990).

5. There is scant evidence of any form of employee ownership predating privatization. In a search conducted for USAID, only six enterprises were identified in Thailand, Zimbabwe and Costa Rica (see Goldmark, 1984).

The second question concerns what types of schemes have been implemented or are being considered for adoption in conjunction with privatization. To this end, we cite examples from several countries and enterprises in order to provide a sample of the types of schemes, the context in which they are being proposed and implemented, and what they are expected to accomplish. From this evidence, criteria for implementation will be suggested.

II. WHAT IS EMPLOYEE PARTICIPATION?

There are three basic types of employee participation: **employee ownership, profit sharing and worker participation in decision-making.** All three involve employees in the financial or decision making aspects of the enterprise. Most of the known examples of employee participation exist in developed countries and were not introduced in a privatization context. Nevertheless, this stock of examples provides a useful taxonomy for discussing the privatization case in later sections.

Employee Ownership

Employee ownership means broadly that employees own equity in the firms of their employ, and thus have the rights and obligations of any typical shareholder. There are numerous types of employee ownership schemes. Ownership can be direct, where employees possess tradable shares of the firm, or indirect where the employee-owned equity is held in a fund or trust with accounts for each of the individual employees. Ownership by employees can range in amount from less than 1% to 100%; the latter is referred to as an employee-owned firm.

Employee ownership can be opened to all, or only some employees in the firm. Management buyouts (MBO) are an extreme example of restricting those employees allowed to become owners. MBOs may, however, be combined with a more broad-based employee share distribution scheme. Another form of limiting ownership is when an original group of employees purchases a firm and subsequent new employees are employed as regular contract workers (rather than permitted to be share owners). Finally, a firm may require that an employee has reached a certain age, or has worked a specified number of years in the firm before being eligible for share ownership.

Most frequently, the right to be an employee owner ends at retirement or termination and only then. In other words, many schemes function such that employee shares may not be traded in until the employee leaves the firm, and then at predetermined rates. This is generally the case when shares in the firm are all privately held (not publicly tradeable), and redeemed shares are then sold to new employees or repurchased by the enterprise. In some cases, employees may sell their shares at any time, including after their retirement.

Generally, payment for redeemed shares occurs over a period of time, eg five years.⁶

Financing arrangements for employee purchases of stock fall into three categories: giveaways, leveraged, and non-leveraged. Giveaways, which account for only a small percentage, have occurred almost exclusively in small privately-owned enterprises at the behest of a retiring (often founding) owner. In these cases, the firm frequently becomes completely employee-owned; employees and managers alike become shareholders and professional management is retained. Alternatively, giveaways can be a component of the privatization of state-owned enterprises (SOEs) where a (usually nominal) percentage of shares are given to employees by the government. Leveraging the enterprise to borrow from financial institutions is a more common practice; in this case the firm, or ESOP, makes payments on behalf of its employees for debt repayment. With ESOPs, equity then accrues in individual accounts for each employee. Leveraging may be combined with some start-up capital provided by the employees themselves, however, it is most often used as a method to create employee owned shares at no personal cost to employees. Finally, non-leveraged buyouts occur when employees do one or a combination of three things: finance the purchase out of personal savings, find loan guarantors other than using the value of the enterprise as collateral, or receive loans provided by the government.

The shares sold to employees are not necessarily equivalent to other shares in the enterprise. For instance, they may be priced and bought for less than assessed value in order to encourage, or facilitate, the purchase. Discounts on employee purchases of enterprise shares can be offered for ideological reasons (Eastern Europe), to reduce employee opposition to the privatization (Korea), or simply to make the shares affordable to wage earners (Jamaica). Another variation is when shares initially offered for sale are simply undervalued relative to an assessment of the firm. This has reportedly occurred in Malaysia, where shares are said to be heavily underpriced in order to entice purchasers (primarily management) with the promise of quick capital gains.

Employee shares may also vary regarding voting rights. It is reported that 70% of U.S. ESOP stock has voting rights attached--but these may be restricted or otherwise not exercised and 30% have no voting rights. Voting rights often differ depending on if the enterprise is privately held or publicly traded. In the latter case, employees holding employer securities in individual accounts have voting rights according to the amount of securities

6. Valuation, particularly with regard to the employee component, continues to be a persistent problem. The U.S. Dept. of Labor has reportedly been working for 14 years to establish appropriate procedures for valuing a firm (and thus justifying a certain level of tax deductions) during the creation of ESOPs. Because leveraged ESOPs create such debt for the firm, the Dept. is now arguing that employee owned shares should be valued lower than unleveraged (privately purchased) shares. See Washington Post, 1990.

accrued. In privately held companies, voting rights to employee shareholders is required only on "major corporate issues"

Employee shares may also differ from other shares in terms of ownership privileges such as dividend payment policies, and the like. The most common restriction is the employees' lack of freedom to sell their shares at any time to anyone. Many plans have some lock-in mechanism, such that employee shares may be sold only when the employee leaves the firm. Other schemes stipulate that dividend payments must be paid to a fund collectable upon departure from the firm.

Typically, however, employee ownership of shares is endowed with the traditional bundle of share ownership rights: the risktaking involved with the fluctuating value of the equity; the possibility to convert the equity to cash (albeit in some restricted fashion); the potential for return (dividends) on the equity; and some power to influence corporate policy with the voting rights attached to the equity.

Examples of employee ownership in a non-privatization context are found primarily in the U.S. and western Europe. ESOPs⁸ in the U.S. and U.K. are frequently cited as having a triad of objectives: to broaden the ownership base, stimulate investment and improve performance. As there are major tax advantages assigned to these plans⁹, they have become quite popular in these two countries. They do not, however, represent a significant vehicle for employee influence within the enterprise; the typical U.S. ESOP owns

7. According to the ESOP Association handbook: "These issues are defined as merger or consolidation, recapitalization, reclassification, liquidation, dissolution, sale of substantially all of the assets of a trade or business of the corporation and ... similar issues. On other matters, such as the election of the board of Directors, the shares may be voted by the designated fiduciary unless the plan otherwise provides." ESOP Association, 1990.

8. ESOP is used here in the generic sense of a defined contribution plan; there are many hybrids of these plans with technical (often tax and financial) distinctions. Other employee benefit plans, such as retirement funds (or defined benefit plan), may also share some ESOP characteristics. The interested reader is referred to Conte and Svejnar in Blinder (1990), Rosen (1987, 1988) and Quarrey, Blasi and Rosen (1986) and ESOP Association (1990).

9. Both principal and interest on ESOP loan payments (as opposed to simply the interest on other commercial loans) are tax deductible. U.S. ESOPs also possess a number of other tax benefits (see Conte and Svejnar). Conte and Svejnar argue, however, that ESOPs are not necessarily an inexpensive source of corporate finance; and, in fact, only a fraction (give number and source) of U.S. ESOPs are leveraged.

approximately 10% of the enterprises' shares.¹⁰ A more extensive form of employee ownership are employee owned firms. Small samples of these can be found in many OECD countries. In these firms, frequently the enterprise was either given to employees by a former owner or was purchased by the employees during bankruptcy proceedings. These firms generally do not involve much employee participation in management or decision-making, unlike the partnership and employee owned firms in service and professional sectors such as law and accounting. Finally, a more ideologically based form of employee ownership are worker cooperatives, such as those found in the construction industry in Italy, the plywood industry in the northwest U.S. or the industrial cooperative group of Mondragon in Spain. Many of these involve more active roles for the employee owners.

Profit Sharing

Profit sharing is an employee incentive scheme¹¹ tied directly to the financial performance of the firm. In its generic form, profit sharing is a bonus paid to employees on top of a normal salary; the bonus fluctuates depending on the annual profitability of the firm.¹² Profit sharing may be individually or collectively based, and may be immediate (cash-based) or deferred.

Many profit sharing schemes resemble employee ownership schemes in that they are deferred payments.¹³ In this case, all profits accrued to an individual are placed in a trust, or individual account, and can be taken into

10. As calculated by the General Accounting Office, reported in Conte and Svejnar (Ibid).

11. Bonus payments may be similar to profit sharing. When conditions for receiving bonuses are stated in the employment contract, these bonuses can be considered incentive payments. The numerous examples of bonus schemes that are not incentive payments (for instance, many executive programs in the U.S. and the bonus system in Japan--covering some 20% of total wage payments for all Japanese workers) will not be discussed here. For more information on the Japanese case, see Hashimoto in Blinder (1990).

12. The hybrids of profit sharing vary depending on how and when the bonus is paid. One variation, frequently called gainsharing, is derived from a calculation of output gains or cost reduction (rather than financial profitability). Note that all of these programs pay these bonuses on top of regular salaries, which is vastly different from the renowned form of profit sharing proposed by Weitzman (1984) where the total wage package would be based on firm performance.

13. Blasi, in Blinder (1990), gives evidence that 96% of the profit sharing plans in the U.S. are deferred and therefore resemble ESOPs. In addition, many profit sharing plans invest in shares of their own enterprise (some solely), making them nearly indistinguishable from ESOPs.

possession only upon the employee's departure from the firm. However, unlike employee ownership, there are no assets owned by individuals and no bundle of rights associated with assets. In addition, profit sharing, unlike employee ownership which frequently has a combination of objectives, is almost exclusively employed as a performance incentive; linking pay to performance is considered a way to motivate employees to produce more and better.

Profit sharing exists both as a legislated policy (standardized for an entire economy) and as a more custom-made enterprise policy. In France, for instance, a decree was adopted in 1967 introducing an obligatory system of deferred profit sharing in all enterprises employing more than 100 workers (Uvalic, 1989). The scheme calls for a certain percent of profits based on an explicit formula reflecting increases in labor productivity to be allocated to a fund for employees. This is frozen for the first five years, after which cash convertability is permitted. A variety of tax exemptions make these schemes advantageous to both the individual and the firms. France also enjoys generous tax exemptions on immediate cash-based profit sharing, which is not obligatory. Similarly, most OECD countries have experienced a recent proliferation of enterprises voluntarily introducing profit sharing plans, which are frequently deferred for tax reasons.

Participation in Decision Making

Employee participation in decision making is a mechanism to empower the employee with more control and influence over the substance and/or environment of his work. Participatory schemes were originally introduced for ideological reasons--frequently in lieu of wage increases--and since have been institutionalized in a number of (western European) countries where there are powerful labor unions. More recently, participatory schemes have been introduced with the hopes of improving employee productivity. The theoretical basis for this notion is not only that employees will be stimulated by having more control over their work lives, but also that they frequently possess specialized knowledge of production activities that can be harnessed in a systematic way.¹⁴

Participation can be limited, i.e. concerning day-to-day production decisions or comprehensive influencing longer term financial decisions such as wage and investment policies. Forms of participation vary widely, ranging from "grassroots" or direct participation to formal employee involvement in the established decision making institutions in an enterprise,

14. The arguments to counter this are: that employees will make selfish decisions that will undermine firm profitability; and that the transaction costs or monitoring costs stemming from involving employees in decision making outweigh the potential productivity gains. (See Levine and Tyson, in Blinder 1990 for a further elaboration of these arguments.)

which is indirect or representative.¹⁵ Generally, there is a correlation between limited and direct participation on the one hand, and comprehensive and representative on the other. Some examples of these forms include:

- (i) Quality circles (QC) -- intended to be a form of information sharing about how to improve the quality of production; QCs are (often voluntary) groups focussed on specific techniques or products. Information sharing is assumed to be motivated by the employees' ambition to accomplish good work and produce a good product.
- (ii) Team production techniques -- designed as a departure from the automated assembly line type of production, to allow workers variety in their jobs and more flexibility in how they are performed.
- (iii) Employee seats on Board of Directors -- found primarily in western Europe, where one or two seats on the Boards of Directors of enterprises are designated for representatives of unions or other employee organizations.
- (iv) Workers' councils -- found primarily in socialist economies, where employee representative groups take many decisions assigned to management in western economies.

A summary of the characteristics of the three types of employee participation is shown below in Table One.

15. Levine and Tyson distinguish three categories of participation: consultative, where employees are allowed or encouraged to give opinions but final decisions are made by management; substantive, involving direct participation where employees' suggestions about production techniques are frequently implemented; and representative, intended for advisory or information purposes on managerial issues.

Table One

| | <u>Employee Ownership</u> | <u>Profit Sharing</u> | <u>Participation in Decision Making</u> |
|--|---|---|---|
| <u>Objectives</u> | | | |
| Broadening ownership | Yes | No | No |
| Increase productivity | Yes | Yes | Yes |
| Facilitate privatization | Yes | No | No |
| Rescue non-viable firm | Yes | No | No |
| Egalitarian/ideological reasons | Sometimes | Infrequently | Sometimes |
| <u>Features</u> | | | |
| Share ownership | Yes | No | No |
| Potential dividend payments | Yes | No | No |
| Voting Rights | Sometimes | No | Sometimes |
| Participation/consultation in managerial decisions | Not typical | No | Yes-in represen- tative schemes |
| Participation/consultation in shop floor level decisions | Not explicitly involved; sometimes introduced in parallel | No | Yes-in direct schemes |
| Coverage in enterprise | Varies | Usually 100% | Varies |
| Government incentives to promote schemes | Tax incentives in many countries | Tax incentives if income is deferred | Some forms legislated in some countries |

III. COSTS AND BENEFITS OF EMPLOYEE PARTICIPATION

Employee participation affects a variety of arenas, for instance, political, social, economic and financial. Many of the political and social implications (e.g. broadening ownership or increasing employee satisfaction) and ideological grounds (increasing the power of the working class) are difficult to formalize or have not been systematically assessed. There are also macroeconomic effects, such as those on government revenue. Tax revenues, for example, are contingent upon the specific tax legislation accompanying the different types of schemes, and revenue may be lost during privatizations due to free or discounted shares. The costs and benefits of these participatory schemes discussed below focus on financial and efficiency-related issues.

Efficiency

A common argument for any form of employee participation is a purported increase in labor productivity and operational efficiency.¹⁶ However, the theoretical literature leaves unresolved the links between employee participation and productivity. On the one hand is the argument that employee participation will increase productivity. This occurs through three sources: the productive skills of the labor force; workers' effort or intensity of work; and the firm's organizational efficiency. Better management-employee relations and greater job satisfaction can reduce labor turnover, as will employees' financial commitment to the firm. Less turnover (an applauded feature of the Japanese system) implies a build-up of firm specific human capital, and commitment can stimulate the information flow and on-the-job training, all improving the skills of the labor force. Increased effort or work intensity can stem from a variety of sources, eg loyalty or commitment, and direct pecuniary incentives like profit sharing. Finally, organizational efficiency can be encouraged by reduced supervision and expedited information processing, greater cooperation, fewer strikes, etc.

On the other hand, the very same arguments have been employed to arrive at the opposite conclusion. Collective ownership is said to encourage the free rider effect and thus reduce effort and labor productivity. Managers will not be able to efficiently carry out their decisions due to interference by worker participation. And participation may hamper factor mobility. In the case of capital, this may retard investment, and in the case of labor it may make employment termination or new hiring difficult.

16. The arguments and evidence presented below draw heavily on Blinder (1990) and Lee (1989).

A recent flow of empirical data on all three forms of participation mirrors the unresolved theoretical debate that has been boiling for years; the evidence on the productivity effects of employee participation is mixed. The evidence stems from numerous studies and indicates that, at a minimum, employee participation has no negative effects on productivity (ie, it is efficiency neutral) and in the best case participation may be efficiency enhancing. The most conclusive evidence concerns profit sharing, where there is convincing evidence to support its positive contribution to productivity. Participation in decision making, when exercised at the grassroots level rather than by representation, is also suggested to be efficiency enhancing. Employee ownership per se (tested in both ESOP firms and completely employee owned firms) yields no conclusive results. Finally, it is becoming clear from the sum of the evidence that financial incentives (both ownership and profit sharing) are most effective when combined with shopfloor level participation.¹⁷

Financial

The most pronounced impact of employee ownership and profit sharing is on individual employee income and wealth. Shares offered at discounts or other premiums with no lock-in mechanism (frequently sold after a short period), individual cash-based profit sharing schemes, and dividend yielding share ownership contribute directly to employee income. Since these benefits are almost exclusively on top of regular wages, they will raise total income. Deferred share ownership and profit sharing schemes contribute to the potential wealth of the employee.

The impact on the firm is also considerable. For instance, the method of financing employee ownership will affect the capitalization of the firm. Leveraging the firm and purchasing treasury stock will provide fresh financing for new investments. Moreover, if the lender is a commercial financial institution, there could be a positive effect on the financial discipline of the firm. However, if the lender is the government, the potential exists that the enterprise will perceive this as a softening of the budget constraint.¹⁸ Finally, if the ESOP is financed (even partially) by the

17. A related question is in what types of firms are these schemes most successful. Both empirical (Lee, 1989) and anecdotal (see the example of NFC below) evidence indicates that the size of the enterprise plays no role in the efficiency effects of these schemes. Further, there is no evidence linking type of production or sector to this question, other than nagging suspicions that service industries and industries with high white-collar concentrations may facilitate the implementation (if not enhance the efficiency) of these schemes which explains the abundance of these schemes in professional sectors.

18. The question of who provides the financing can be an important factor in providing correct incentives. Government financing often occurs for social reasons, implying that the government has a vested interest in the success of the firm. It is possible that the government would more readily relax interest

employees themselves, there is the risk of personal loss if the enterprise fails. (The threat of this could put a damper on financial risk taking and thus stifle long term profitability.)

Another issue concerns the price of shares purchased by employees. If the shares are given away, they are made readily available to low income (or non risktaking) employees. However, there is a genuine concern that no real sense of ownership will be developed. Selling the shares at a discount encourages speculation and thus accelerates turnover of shares (assuming there is no lock-in mechanism). Both giveaways and discounts have the effect of reducing potential revenue intake for the government if sold during a privatization. On the other hand, fully priced shares may have the disadvantage of being too dear for non-salaried employees.

Other costs of participation are labor-related, including potential loss of work time, wage escalation, and retention of an inappropriate work force. Any form of employee participation in decision making, despite purported productivity increases, will detract from time on the job. In addition, employee participation in more substantive decisions can cause a conflict of interest. Employees can block wage discussions or, in the worst case, cast majority votes for unjustified wage increases to the detriment of the firm's profitability. (The latter case has been observed in Yugoslavia, China and Laos, where employee decision making predominates over any profit making interests that the state -as owner - may have). In the long run, preference for wage increases or dividend payments over new investments may jeopardize the viability of the firm. Employees may also vote against any measures to downsize staff and in the case of employee ownership may also block new hires in order to retain greater share holdings. Finally, all these schemes involve some transaction costs: calculating bonuses for profit-sharing programs, loan repayment schedules for ESOPs and administering consultations in participatory schemes.

Some of the outcomes of employee participation are presented in Table Two below.

and principal payments or, in the extreme case, bail out a loss making firm even after it has been privatized. Further, management may work under the assumption that bailouts will occur.

Table Two

| | <u>Employee Ownership</u> | <u>Profit Sharing</u> | <u>Participation in Decision Making</u> |
|--|--|---------------------------|---|
| <u>Outcomes</u> | | | |
| Immediate income above/ beyond wages | Sometimes (dividend payments) | Sometimes | No |
| Deferred income or wealth above/beyond wages | Yes (equity sales) | Sometimes | No |
| Increased productivity | No conclusive evidence* | Yes | More likely from direct/less likely from representative |
| Decreased productivity | No evidence | No evidence | No evidence |
| Likelihood of negative impact on management and/or profitability | No evidence; can be cor- related to employee decision making rights | Unlikely | Less likely with direct; more likely with representative |
| Broadened ownership | Yes in short run, but long run effects may be marginal | No | No |

* Shopfloor (direct) participation coupled with employee ownership increases the likelihood of productivity gains.

IV. EXAMPLES OF EMPLOYEE OWNERSHIP IN PRIVATIZATION

Two categories of employee ownership introduced during privatization have been identified: schemes legislated to be introduced during the privatization of entire SOE sectors, and those which are a component of the privatization of individual firms. The former is represented in countries which have or are implementing such schemes (U.K., France, Korea, Argentina and Poland¹⁹), and those with schemes under consideration (Sri Lanka)²⁰. The enterprise examples are far more numerous; those chosen for illustrative purposes for this study are the National Freight Corporation (U.K.) and the National Commercial Bank (Jamaica). Snapshots of these privatization examples are provided below.

SOE Sectors

U.K.

One of the major themes of the Thatcher privatization program was to create a nation of shareholders. Small scale ownership, including employee ownership, was encouraged. In some cases, direct incentives or other special arrangements were offered by the government to achieve this end.²¹ Management buyouts were also encouraged. Ten enterprises, or almost half of all privately sold firm, were sold as MBOs. At least one of the MBOs --National Freight-- was purchased by a management-employee consortia.

Employee ownership was encouraged by the government through a program of free and matching shares. During each of the initial offerings of the enterprises sold publicly, employees were offered a number of free shares (on average, approximately 40). Purchases made by employees were matched with

19. Chile reportedly incorporated employee ownership into its final phase of privatization; of 17 fully privatized enterprises, 3 ended up as 100% employee-owned while the remaining had an average of 20% worker ownership (and 7% in another nine partially privatized firms). Substantial employee representation on the Board of Directors was also a feature of this program, which apparently has been widely praised.

20. Pakistan is also reported to be considering an employee ownership stipulation in coming privatizations, but details are unavailable.

21. Installment payments (payments for stock purchase spread out over 2-3 payments and over several months), and loyalty bonuses (where additional stock or some other bonus is awarded if stock is held for a specified period of time) are two of the innovations granted small scale purchasers. Much of this section relies heavily on Hyman in Veljanovski (1989).

a number of shares (often 2:1). In all of these offerings, shares were designated and reserved for employees and pensioners in case of oversubscription (with a ceiling on individual purchases and on total employee purchases -- 10% in the largest case). Nearly 80% of employees on average took advantage of these offerings.

All free and matching shares were locked-in to an ESOP, presumably with no allowances for sale until the employee's departure from the firm. The shares purchased by the employees themselves were, however, available for immediate sale, and because of the market premium many at once took advantage of this option. In cases where purchases were made in installments, bonuses (eg, discounts on purchases of additional shares) were awarded to those retaining shares up until the last installment was paid (to reduce the temptation for quick turnover and profit taking). With the exception of National Freight, no firm ended up with more than 4% employee ownership.²²

France

The French privatizations share many features of those in the U.K. The underlying political goal was to divest the state of previously nationalized firms while creating some form of "popular capitalism". To this end, there were, as in the UK case, ample provisions for small scale and employee ownership.

In all SOE privatizations, the government reserved 10% of shares for employee purchases; with few exceptions this quota was oversubscribed (50-90% of employees invested). Some early privatizations in 1982 were less than successful in developing broad employee ownership, as the ratio of shares purchased by executives was extremely high and shares were bought primarily for speculative reasons and sold soon thereafter. However, in 1986 a framework was developed such that all privatizations would follow a specified formula: 60% to French nationals (including a maximum 10% to past and present employees); 20-30% to a core group of institutional investors; and 20% in private placement.

The government permitted preferential terms for employee purchases. These included installment payments, some free shares, some reductions (up to 20%) on issue price (with the stipulation that those shares offered at a reduction of greater than 5% were locked-in for two years), and matching shares (one for one, with a lock-in of one year). (Santini, 1988) The outcome has also been similar to Britain; there has been a considerable amount of share turnover subsequent to privatization but significant increases of employee and small scale owners relative to the pre-privatization period.

Korea

The on-going privatization program in Korea involves the partial (49%) divestiture of seven large SOEs. Two firms have already been divested. The divestiture is intended to increase equality of income distribution and

22. According to Hyman in Veljanovski (1989).

ownership in the economy as a whole and efficiency, with emphasis on the former (the enterprises are already performing well). The main component of the program is the People's Share Program, which allows the purchase of 75% of shares by low income individuals and 20% by employees.

The employee package was conceived to reduce opposition to privatization, which would purportedly stem from the fear of employment reductions. The 20% reserved for employees translates to a per employee allocation 100 times greater than that for the average private individual. One of two forms of preferential pricing can be exploited for employee purchases: a 30% discount on the issue price, or installment payments of up to 5 years, interest free. In order to lock in, a guaranteed dividend is offered to all long term shareholders. In one of the companies already divested, employees received preferential financing in addition to discounts (on the condition that shares were locked-in until retirement). The post-privatization employee ownership block was approximately 10%.

Argentina, Poland and Sri Lanka

Legislation has recently been passed in both Argentina and Poland which stipulates employee ownership to be introduced during privatization. In addition, Sri Lanka is considering employee ownership as a component in proposed privatization. These three countries will be briefly discussed below.

The Argentinian privatization program includes employee ownership as a way to introduce "democracy" into both political and economic realms. The Programa de Propiedad Participada (PPP) specifically requires that 10% of a privatized company's stock go to its employees. Although no privatizations have yet been transacted under PPP, the legislation encourages an ESOP type of arrangement. Employees would not be required to participate in the program, however, they would not have to make a financial contribution in order to become shareholders. The employee shares would be priced at market value but financed by the enterprise over a period of time. Payments for these shares will be transferred to the government. During the transition period prior to employees' full ownership of their shares, the employee block of shares will be placed in a trust with a designated fiduciary. After full payment, the shares will be dispersed to the individual employees. The Program also provides such details as a formula to determine the number of shares which can be allocated to each worker, and the requirement for establishing a guarantee fund which will repurchase employee shares upon departure.

The Polish employee ownership component is a part of the "mass" privatization program aimed at transferring enterprise shares to a variety of interest groups. This program will cover approximately 500 large enterprises and will involve the free distribution of a large portion of their shares. In addition to blocks of shares being transferred to the public at large, pension funds and banks, 10% will be reserved for enterprise employees. The legislation is flexible on the form of employee ownership. While no transactions have been completed, at least one large enterprise is actively designing an ESOP to meet the requirements.

Sri Lanka's state owned enterprise sector is slated for widespread reform. Due to the highly political nature of the SOEs, and the privileges and conflicting objectives which have been bestowed upon them, it is widely perceived that corporatization, or the transformation of SOEs into joint stock companies, followed by restructuring and finally privatization ("peoplization" is the actual term used by the government) is the only realistic method of reform. This will involve two different and separate aspects of employee involvement: "gratuities" and eventually employee shares.

Gratuities are not directly related to employee ownership or profit sharing; they resemble more a severance payment on the termination of employees' civil service status during a privatization. There is, however, some speculation that some of these gratuities paid in the form of bonds may be converted into employee owned shares during the privatization phase. Employee ownership is being enthusiastically discussed by the populist government, but a concrete program has yet to emerge. Legislation has not been passed, but it is assumed that approximately 10% of SOE shares will be reserved for employees. The government's enthusiasm does not, however, seem to be shared by employees. Many of the SOEs have records of poor performance, all too well known to their employees, who are reported to be less than interested in investing in such firms.

Enterprises

National Freight Consortium, U.K.

As a detailed example, the experience of the National Freight Co. represents the type of success story that employee ownership advocates enjoy flaunting. In 1982, due to a combination of economic circumstances which prevented a public offering, the company was purchased by a consortium of its employees, orchestrated by key management personnel. The method of purchase and financing was meticulously planned, and the campaigns to include employees of all levels as owners have been immensely successful. Shares have increased in value by 62 times, and profits have increased by over 12 times since the buyout. Also, both investments and dividends have increased considerably. Much of the successful performance has been attributed to employee/shareholder commitment, although there have reportedly been some financial transactions undertaken since employee ownership which have contributed significantly to profitability.

At the time of purchase, the firm had some 42,000 potential purchasers (24,000 current and 18,000 retired employees). Approximately one-fourth of these purchased shares at the time of the original offer, and some 6,000 additional employees made investments in subsequent years (Thompson, 1985). Eighty-three percent of the equity is presently held by these shareholders, with the remaining belonging to the lending institutions.

The majority of the financing for the original purchase was through leveraging. A fund was established to provide interest-free loans to employees for stock purchase. These loans are still provided for share purchase by new employees, whose 'entry price' remains affordable due to a

policy of share splitting. Shares are tradable only on an internal market on designated dealing days. The value of shares is established by an independent auditing firm, and transactions are prioritized according to the category of purchaser and seller (trustees of deceased employees, those in financial hardship, and such). Oversubscription has occurred at each sale.

Employee involvement, combined with professional management, is very much the philosophy of the firm. In addition to broadbased ownership within the firm, including frequent opportunities to exercise voting rights, the firm has a number of programs supporting the idea that effort should be rewarded. This is accomplished through a variety of bonus schemes. Employee interest and commitment in the firm is a key component. Programs to sustain interest and commitment include regional quarterly shareholder meetings, shareholder surveys, newsletters and the like. NFC appears to be a good example of a "participatory management" style.

National Commercial Bank, Jamaica

The National Commercial Bank was the flagship privatization in Jamaica, undertaken with the clear idea of involving as many nationals as possible in the purchase of enterprise shares. Employee ownership was very much a part of the government's ideological position; employees were to be given a stake in the firms of their employ in order to enhance personal motivation and to establish a broad base for the ownership of assets (Leeds, 1988).

A prospectus was produced which outlined the mechanism for employee purchases of shares. Of the 51% of the shares offered for sale, 13% were reserved for employees.²³ All fulltime employees were eligible for a combination of free shares, matching shares and purchased shares (both discounted and full-priced) up to a ceiling of 2070 shares. The 13% of shares were initially reserved in a trust, to which employees applied for ownership. The shares under the stewardship of the trust were financed by a loan made by the Bank itself (ie, leveraging), which was repaid in cash or installments by employee purchasers. The installment plan, called the Easy Payment Plan, enabled employees to pay for shares through salary deductions over a 24 month period. Approximately 98% of eligible employees participated in the offering.

All unsold shares remained in the trust for a second round of offering to the employees, again at a discounted although slightly less preferential rate. In the second round of offerings, the ceiling for individual purchases was raised to 50,000 shares. Payment arrangements were

23. The 13% reserved for employees became an instant voting block as the 49% of shares remaining in government hands were declared non-voting shares. The Trust holding all employee owned shares has reportedly since bought up shares on the open market, and has had major influence on, among other things, the choice of Directors. Whether or not this has had any effect on diverting enterprise objectives away from profit maximization has not been confirmed; however, the risks are apparent.

similar to the first round. Of the four categories of shares²⁴, the free shares were not tradable within the first two years. The matching and discounted shares were tradable only to other employees (ie, internal trading within the Trust) and only priority shares were freely tradable. The free, matching and discounted shares reportedly cost the government approximately J\$1.2 million.

Summary of Examples

The examples above illustrate that employee ownership was implemented as part of privatization for a variety of political, social, financial and economic objectives. While insufficient time has elapsed to make thorough assessments of the outcomes, a few noteworthy features can be highlighted.

Objectives: The employee ownership component of these privatizations had clear political aims. Broadening share ownership was the primary objective; and employee ownership was often coupled with efforts to stimulate other small scale ownership. Employee ownership was also described as a necessary component to facilitate the privatization. Clearly there was a perceived or real threat of labor opposition to the privatization. Equally important, although less often expressed, was a desire on the part of the government to leave intact the managerial staff during the transaction. Share offerings were seen as a method to retain these employees at least in the short run. Finally, employee satisfaction, improvement of labor-management relations, and raising employee productivity were recognized as important aspects of some of the employee ownership components.

Extent: Employee ownership as a privatization component in the transformation of an entire SOE sector is often kept to nominal values. Five to ten percent of any given firm was the figure most frequently employed. This appears to be a compromise figure: large enough to reduce potential labor opposition yet small enough not to give employees too much influence over managerial decision making. It is important to point out, however, that if the government retains a certain percentage of shares, and remains a passive (as in NCB) or benevolent (as in Korea) owner, the employee block could gain real influence. Moreover, there is the potential that the employee block, particularly when retained collectively in a trust, can increase its shareholdings to become a decisive force in the firm. The risk that objectives other than profit making become predominant, ultimately affecting firm performance, are thus increased.

More extensive employee ownership (such as that in NFC), particularly when coupled with other participatory plans, are usually designed

24. The categories of shares were offered in a "step approach", whereby free shares were allocated first, then purchased and matched shares, only then could employees purchase discounted shares, and finally priority shares. The employee could advance to the next category only after purchasing the maximum of the previous category.

on a case-by-case basis, rather than sector-wide. This is a transaction cost-intensive undertaking. The trade-off is that greater amounts of employee ownership tend to be more sustainable; this assists in maintaining a broader ownership within the economy and also discourages speculative ownership. In addition, there may be greater efficiency gains possible in firms adopting more extensive employee ownership.

Mechanisms: Two interesting and useful features employed in implementing employee ownership components were brought out in these examples. First is the method of finance. For the employee block as a whole, this was often done by leveraging or through government guarantees. For the shares purchased by individuals, there were incentives such as installment payments, interest free loans, discounts, giveaways, and matching shares. There is no doubt that these incentives (or a combination of them--the step approach being particularly enticing) increased the appeal of share purchase to employees.

Second, there is the prevalent feature of lock-ins. Lock-ins were either mandatory, ranging from one year to the full period of employment, or voluntary, often with some bonus attached. Many of the governments sent out conflicting signals with their advertising of privatization programs. On the one hand, shares were priced at a premium (clearly the case for those free or discounted shares designated for employees) and potential revenues from the sales of shares were made no secret. As a consequence, many of the employees sold their shares for quick cash gains soon after purchase. On the other hand, the creation of a sustainable broader ownership base appeared to be a high governmental priority, implying that these new owners should not sell, but in fact should hold onto their new shares. Lock-ins were an effective compromise.

V. ASSESSMENT

What Can Employee Participation Accomplish?

The answer to the question raised above is clearly related to the context of employee participation, i.e. during privatization or in the absence of privatization, as the context determines the objectives. Where privatization is not the context, employee participation schemes have frequently been implemented either for political or ideological reasons, to increase the rights or wealth of employees and broaden ownership or as a motivational incentive intended to improve enterprise performance. Where privatization is the goal, additional objectives include decreasing labor opposition to the privatization, retaining competent management, and possibly rescuing bankrupt firms. Can employee participation schemes achieve any of these objectives? And if so, which types of participation schemes perform best?

Employee ownership appears to contribute to the broadening of share ownership at the macro level. Evidence from the U.S. General Accounting

Office suggests that per capita stock ownership via ESOPs was three times that of the U.S. average.²⁵ Evidence from the U.K. and France indicates considerable increases in post-privatization ownership due to the employee ownership plans and other small-scale owner incentive packages. However, the sustainability of this phenomena is positively related to lock-in stipulations, and negatively related to attractive premiums on issue price. Lock-ins, while justified in privately held firms, can be a questionable mechanism because they may create share market distortions for shares of publicly traded firms. They may be easier to justify with employee, as opposed to general, buyers as the lock-in can be tied to the employees' tenure in the firm.

Is employee ownership the best way to broaden ownership in a privatizing economy? Clearly a public offering has greater potential coverage, but does not necessarily deliver a dispersed purchasing group. In order to entice low/middle income buyers, governments will target certain groups such as pensioners or low income citizens often with discounted shares. Employees are then only one of several target groups needed to broaden ownership. Further, an argument raised frequently in the eastern European context is that utilizing only employee ownership to broaden the ownership base is inequitable; it rewards only those who are employed in profitable firms at the cost of those employed in the private sector, in poorly performing firms, in government service sectors, and the unemployed. It is clear that employees should be coupled with other purchasing groups to best achieve this goal.

The effect of employee participation schemes on firm performance is mixed. In the non-privatization context, the evidence is quite strong that combining employee ownership or profit sharing together with some form of direct (non-representative) participation produces a positive impact on firm performance. But, so far, this combination of schemes has not been considered in the privatization context, with the exception of NFC. Since there is little outcome data on most of the privatizations reported above, and since the employee ownership component in many privatization cases was relatively small, there is no evidence that employee ownership alone will contribute to performance improvements in the privatization context.

Employee ownership may have an impact on corporate governance. On the one hand, it can concentrate ownership within an enterprise, which can be advantageous to SOEs suffering from a lack of clear ownership. On the other hand, powerful employee voting blocks may interfere in management decision making or press for objectives other than profit making, which can negatively affect firm performance in the short run and threaten enterprise viability in the long run. Limiting the voting rights of employee-owned shares or creating a buffer by placing employee-owned shares in a fund with a designated fiduciary are ways of reducing the likelihood of this usurpation of power by employees.

25. There is, however, a concentration of management ownership in many ESOPs.

Employee ownership, and other forms of participation, do however, appear to be advantageous in facilitating privatizations. First, employee ownership provides a sense of security to employees that the risk of redundancy in the post-privatization firm will be reduced; consequently labor's opposition can be reduced. Where there are post-privatization layoffs, share ownership may complement a severance package. Second, share ownership mutes worker opposition to privatization in those countries where employees have been led to believe that they have some right to ownership in the firm. (This is true primarily in socialist and post-communist countries.) The eventual windfall profit offered many employees due to the advantageous purchase conditions may make privatization seem more attractive. Further, it may also have the effect of persuading key management personnel to stay on during the transition.

Finally, complete employee ownership as a method to rescue a non-viable firm is a tenuous proposition. If costs can be cut by reducing the cadre of middle management and redundant employees²⁶, if employees agree to sacrifice some of their wages during the turnaround period, and if employees can increase their productivity in the hope that the rewards of increased productivity will directly accrue to them, there is potential for a successful turnaround. While this has been accomplished in some cases in developed countries, it is a rare combination of circumstances which leads to success.

Relevance for Bank Borrowers

General

Employee ownership introduced in conjunction with privatization is a relatively new and rare phenomenon. In developing countries, there are very few examples. However, it is precisely in the context of privatization in developing countries that employee participation is beginning to be discussed and to emerge. One clear message which stems from the preceding discussion is that the objectives for introducing employee ownership must be clarified and prioritized in order to establish if employee participation is an appropriate component of a privatization program. In addition, objectives for the employee participation component must also be considered in relation to the objectives of the privatization as a whole. For instance, if a primary objective of privatization is to raise revenues for the state, then the cost of giveaways, discounts and other forms of premiums must be calculated. If one objective is to retain a high level of domestic ownership during a privatization, then a greater ratio of employee ownership, and its attendant costs, might be considered.

What can be gleaned from the experience to date of countries and enterprises, both developed and developing indicate that employee

26. Some of the most publicized examples of bankruptcy takeovers involve groups of workers determined to manage the firm themselves. This ambition frequently results in dire financial consequences for the firm.

participation may be a useful component of privatization in the following cases:

- To broaden the distribution of ownership during privatization, employee share offerings have some effect. Purchase incentives are usually necessary, and lock-in mechanisms lead to greater sustainability. Employee purchases generally are cheaper to administer than a public offering, but do not have the same coverage. Thus, to meet this objective, employee ownership has typically been combined with share offerings to other small scale purchaser groups such as pensioners. The amount of employee ownership offered during privatizations aimed at broadening share ownership has been in the range of 5-20%.
- Performance improvements have not been unequivocally linked to employee ownership alone. There is evidence that profit sharing does lead to increased productivity as may employee ownership combined with schemes to involve employees in shop floor decision making. However, since profit sharing is not a mechanism easily combined with privatization, employee ownership coupled with some participation in decision making may be a second best solution to bolster productivity.
- To facilitate the privatization transaction, the record indicates that small amounts of employee ownership (e.g. 5%) may suffice. This has traditionally been accompanied by large premiums on the issue price, generous financing arrangements and no lock-in mechanism.
- To restructure a weak but potentially viable firm, employee ownership is recommended only where there is no question of a bailout, where at least some of the workers' capital is used for financing, and where some employee participation in decision making under the guidance of professional management is introduced²⁷

There is no single recipe for an optimal set of characteristics (e.g. dividend policies, voting rights, direct vs indirect holdings and the like) or mechanisms (e.g. discounted or matching shares, lock-ins) for an employee participation scheme. Evidence is only beginning to emerge concerning how the different characteristics and mechanisms enhance the various objectives set out for these schemes. Regarding the extent of the schemes, it is clear that too little (for instance, less than 5% share ownership) may have no effect in order to achieve objectives. In contrast, too much participation (for instance, in comprehensive decision making) may end up being detrimental to the enterprise. Regarding the kind of employee participation, some basic

27. In poorly performing or nearly bankrupt firms with a potential for salvaging, a sensible approach would be to introduce profit sharing and limited participation (such as teamwork) during the restructuring phase to judge the responsiveness of employees. If the schemes are successful in raising productivity, employee ownership might then be considered during privatization.

lessons are beginning to emerge. For broadening ownership, employee ownership is the only alternative of the three types of employee participation.²⁸ For increasing productivity, financial rewards and decision making participation should be introduced simultaneously. (This is equally true for SOEs being privatized as those remaining state-owned.) To facilitate the privatization, only ownership has been tried and appears successful. While employee ownership is far superior to employment guarantees for reducing employee opposition to privatization, other forms of participation may prove to be equally good substitutes.

Socialist Economies in Transition

The special case of economies transforming from command to market systems provides a clear case for the use of employee participation as a privatization component. First, these economies need to jumpstart private ownership with a variety of transferral methods. Second, employee ownership may be a necessary condition in some countries, as employees perceive that they already have certain (ill defined) ownership rights in their enterprises. In all cases however, employee ownership should be treated as only one of a menu of privatization options. This is particularly important due to the large number of potentially non-viable enterprises; employee ownership in the enterprises could cause severe social equity problems.

Legislation is being introduced in many reforming socialist countries to provide for employee ownership. In some cases, new laws allowing employees to purchase their own firms have resulted in what has been dubbed "spontaneous privatization", where management more or less confiscates the assets of former SOEs for personal gains. In the case of Hungary, however, this process is now being carefully monitored. In other cases, notably Poland, legislation has been passed stipulating a percentage of employee ownership during privatization. Finally, in Yugoslavia the transformation of SOEs to employee owned firms is being encouraged.²⁹

Economies in transition provide a unique instance of privatization as an end unto itself. With the pressure to privatize a vast number of enterprises quickly, employee ownership becomes an attractive technique to forward the privatization process. Over and beyond its role to broaden ownership, as seen in the cases described above, perhaps the strongest argument for the use of employee ownership is as a short to medium term measure to deepen private ownership in transforming economies. In addition, the implementation of employee ownership can reduce administrative time and costs and ease political conflicts, relative to other forms of privatization.

28. However, governments interested in improving the distribution of income, rather than wealth, would be wise to consider profit sharing schemes.

29. In profitable enterprises in Yugoslavia, a share of employee income is to be regularly deposited into an ESOP-type trust in order to eventually purchase the firm. The Law on Personal Incomes, which stipulates this, is reportedly being vigorously opposed by unions. (See Bogetic, 1990).

However, equally important to speed and cost is that the ownership structure of the post-privatized firm provides correct incentives for financial performance. Yugoslavia is an excellent example where in order for employee ownership to succeed, self-management must be eliminated and professional management (guided by a Board of Directors) established.

What types of enterprises would be best suited for employee ownership schemes? Extensive employee ownership could be introduced into a variety of firms, for instance, those that are service-oriented, rely heavily on human capital or are small-scale, labor intensive lines of production. These are firms where individual output is fairly monitorable, and financial rewards may provide a motivational incentive. In addition these firms could be easily transformed to employee-owned with relatively little risk to employees and then later sold to outside owners. Larger industrial firms will likely start with a more limited form of employee ownership, such as an ESOP, such that employees become one of the many groups of investors in the enterprise. Firms in need of restructuring could test profit sharing and limited participation to phase out worker councils, bolster incentives and contribute to a turnaround prior to privatization. Finally, enterprises which have little commercial value and are unattractive to investors could be given to the employees as a last resort prior to liquidation.

The lure of potential future profits for employees may end up being a much needed market stimulus, harnessing entrepreneurial talent and stimulating production and private ownership. The key is to ensure that potential employee owners understand the risk of ownership, and that no post-privatization bailouts from the government are permitted.

References

- Blanchflower, D.G., and A.J. Oswald. 1987; "Shares for Employees: A test of their effects," Centre for Labour Economics, Discussion Paper No. 273. London School of Economics.
- Blinder, Alan S., ed., 1990; Paying for Productivity: a Look at the Evidence. Washington D.C.: The Brookings Institute.
- Bogetic, Zeljko, 1990; "Privatization and Employee Ownership," Draft mimeo, October, Washington DC.
- Bradley, Keith, and Alan Gelb, 1983; Worker Capitalism: The New Industrial Relations. Cambridge, Massachusetts: MIT Press.
- Economist, 1990; "Punters or Proprietors? A Survey of Capitalism," May 5, 1990.
- Ellerman, David, Alex Vahcic and Tea Petrin, 1990; "Privatization Controversies in the East and West," mimeo, GEA Ventures, Ljubljana.
- ESOP Association, How the ESOP Really Works, 1990.
- Financial Times, 1986-90; Collected articles: Employee Ownership.
- Freiman, Howard A., 1990; "Understanding the Economics of Leveraged ESOPs," Financial Analysts Journal, March-April.
- Goldmark, Susan, 1984; "Capitalizing Workers: the Impact of Employee Stock Ownership Plans in Selected Developing Countries" Evaluation Special Study No. 19; U.S. Agency for International Development.
- Hachette, D. and R. Luders, 1988; "Privatization in Argentina and Chile: Lessons from a Comparison", World Bank Internal Discussion Paper No. IDP18, LAC Region.
- Lee, Barbara W., 1988; "Productivity and Employee Ownership: The Case of Sweden," Uppsala University.
- Lee, Barbara W. and John Nellis, 1990; "Enterprise Reform and Privatization in Socialist Economies," World Bank Discussion Paper No. 104.
- Leeds, Roger S., 1988; "Privatization in Jamaica: The Caribbean Cement Company".(draft)
- Leeds, Roger S., 1987; "Privatization of the National Commercial Bank of Jamaica," Kennedy School of Government Case Study.
- Luders (1990)

- Quarrey, Michael, Joseph Blasi and Corey Rosen, 1986; Taking Stock: Employee Ownership at Work. Cambridge: Ballinger Publishing Company.
- Richardson, Ray, and Aaron Nejad, 1986; "Employee Ownership Schemes in the U.K. - an Evaluation," *British Journal of Industrial Relations*, Vol. 24, No. 2, July.
- Rosen, Corey, 1988; "Beyond Taxes: Using ESOPs to Boost Corporate Performance," *Management Review*, March.
- Rosen, Corey and Michael Quarrey, 1987; "Special Report: How Well is Employee Ownership Working?" *Harvard Business Review*, Sept-Oct, No. 5.
- Santini, J., 1988; "Privatization in France: Breaking Away from State Control or Adapting to a New Economic and Financial Environment?", University of Reading, Working Paper No. 25.
- Song, Dae Hee, 1990; "Reform of Korean Public Enterprise Sector and Privatization," presented at the 8th ABD/KDI Development Round Table, August.
- Thompson, Sir Peter, 1985; "The NFC Buy-Out - A New Form of Industrial Enterprise," Long Range Planning, Vol. 18, No. 5.
- Uvalic, Milica, 1989, "Profit-Sharing Schemes in Western Europe", mimeo, Dept. of Economics, Florence, European University Institute.
- Veljanovski, Cento, 1989; Privatization and Competition. London: The Institute of Economic Affairs.
- Washington Post, October 12, 1990, "Lawsuits Target ESOPs Foibles".
- Weitzman, Martin, 1984; The Share Economy: Conquering Stagflation. Cambridge: Harvard University Press.

PRE Working Paper Series

| | <u>Title</u> | <u>Author</u> | <u>Date</u> | <u>Contact for paper</u> |
|--------|--|---|-------------|------------------------------|
| WPS648 | Who Paid the Bill? Adjustment and Poverty in Brazil, 1980-95 | M. Louise Fox Samuel A. Morley | April 1991 | WDR Office 31393 |
| WPS649 | An Observation on the Bias in Clinic-based Estimates of Malnutrition Rates | Margaret E. Grosh Kristin Fox Maria Jackson | April 1991 | B. Diallo 30997 |
| WPS650 | Administrative Valuation of Soviet Agricultural Land: Results Using Lithuanian Production Data | Karen Brooks | April 1991 | C. Spooner 30464 |
| WPS651 | Taxation of Financial Assets in Developing Countries | Christophe Chamley | April 1991 | A. Bhalla 37699 |
| WPS652 | Demographic Response to Economic Shock | Kenneth Hill | April 1991 | WDR Office 31393 |
| WPS653 | The Effects of Option-Hedging on the Costs of Domestic Price Stabilization Schemes | Donald F. Larson Jonathan Coleman | April 1991 | D. Gustafson 33714 |
| WPS654 | Reflections on Credit Policy in Developing Countries: Its Effect on Private Investment | Mansoor Dailami Marcelo Giugale | April 1991 | M. Raggambi 37657 |
| WPS655 | Interest Rate Policy in Egypt: Its Role in Stabilization and Adjustment | Mansoor Dailami Hinh T. Dinh | April 1991 | M. Raggambi 37657 |
| WPS656 | Relative Deprivation and Migration: Theory, Evidence, and Policy Implications | Oded Stark J. Edward Taylor | April 1991 | M. Felix 33724 |
| WPS657 | Distributional Aspects of Debt Adjustment | Ishac Diwan Thierry Verdier | April 1991 | S. King-Watson 33730 |
| WPS658 | Fiscal Policy with Fixed Nominal Exchange Rates: Côte d'Ivoire | Christophe Chamley Hafez Ghanem | April 1991 | Raquel Luz 34303 |
| WPS659 | Inflation and Growth in the Transition from Socialism: The Case of Bulgaria | Andrés Solimano | April 1991 | E. Khine 37471 |
| WPS660 | The Development of the Colombian Cut Flower Industry | José A. Mendez | May 1991 | N. Artis 37947 |
| WPS661 | The Bretton Woods Agencies and Sub-Saharan Africa in the 1990s: Facing the Tough Questions | Richard E. Feinberg | May 1991 | S. King-Watson 33730 |

PRE Working Paper Series

| <u>Title</u> | <u>Author</u> | <u>Date</u> | <u>Contact for paper</u> |
|--|---|-------------|------------------------------|
| WPS662 Trends in Social Indicators and Social Sector Financing | Jacques van der Gaag Elene Makonnen Pierre Englebert | May 1991 | B. Rosa 33751 |
| WPS663 Bank Holding Companies: A Better Structure for Conducting Universal Banking? | Samuel H. Talley | May 1991 | Z. Seguis 37665 |
| WPS664 Should Employee Participation Be Part of Privatization? | Barbara W. Lee | May 1991 | G. Orraca-Tetteh 37646 |
| WPS665 Microeconomic Distortions: Static Losses and their Effect on the Efficiency of Investment | Ramón López | May 1991 | WDR Office 31393 |
| WPS666 Agriculture and the Transition to the Market | Karen M. Brooks José Luis Guasch Avishay Braverman Csaba Csaki | May 1991 | C. Spooner 30464 |