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Privatisation versus Capital Market.
The Corporate Governance Case of Bulgaria*

by

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Mass privatisation has exerted and is still exerting a very serious and wide-scale impact on the restructuring of the national economy. This is spread out not only to the directly included enterprises but also to other important institutions of market economy, such as the Stock Exchange. This impact is working, through the enormous number of individual participants, on the confidence and predisposition of the investors as well as the external portfolio investors. Maybe the most serious impact of this influence is the formation of a new structure of forms for corporate control in the privatized enterprises (Shleifer & Vishny 1997).

This paper¹ presents some of the results of a survey of this structure conducted with the financial support of the PHARE-ACE program and the Economic Institute of the Bulgarian Academy of Sciences (Tchipev 1997; 1999). The survey uses the classic tradition in the treatment of the problem, which starts with the fundamental survey of Berle & Means (1991), which states that the means for effective control on the management of the enterprise are determined by the scale and the distribution of the shareholders' participation in its capital. Later on this was used as a basis for the development of a methodological approach for practical surveys by authors like Cubbin & Leech (1983) and (Zeitlin 1974), and John Scott (1991), who participated in the analysis of the corporate control in many of the developed market economies. Close results on concentrated ownership show Petranov & Miller (1999).

On the basis of this approach the main concepts for majority-minority control and the whole scale of derivative forms (mechanisms) such as the presence/absence of majority shareholder, the presence/absence of a second strong shareholder or group of shareholders in the capital of a company, the correlation between the capital in the hands of the biggest (the leading) shareholder and the others, and finally the general structure of shareholders' participation are drawn. All of these determine the classification of one or another form of corporate control. The whole entity of specific forms of corporate control defines the structure of corporate control in a given country. Those criteria, taken not only in their temporal development, but in their national specifics, are analyzed in detail in the report. This focus of the report is predetermined not only by the scale and the influence of mass privatisation, but by the fact that initial dispersion of property was present in the mass privatisation, unlike all the other forms which in Bulgaria were based on direct techniques for transfer of property in the hands of one buyer. The most significant conclusion presented in the report is that the arising concentrated forms of control do not help for the development of the stock market in Bulgaria.

1. Objectives of Bulgarian Mass Privatisation

The most popular reason for mass privatisation has always been the willingness to speed up the privatisation. In fact, the first privatisation model, called later 'cash privatisation' was designed with a lot of deficiencies as wrong expectations, e.g. the presumption for quick development of the stock market, unnecessary centralization of the procedure, the improper choice of techniques - 'negotiations with the potential buyers', even for smaller deals - a time consuming ones. All that slowed down the process vastly.

The second goal stated before mass privatisation was a change in the way the companies are being managed. Although, while the poor management of great deal of state enterprises

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was out of question practically for everybody, it was not quite clear how the mass privatisation will influence it. There were expectations, that the change in ownership of selected enterprises will have a strong positive effect on the way the enterprises are managed, but there was no going debate - which way the thousands of small new shareholders will initiate this radical change; were the privatisation funds (PF) able to perform corporate governance and, if yes would this not interfere with their proposed functions as investment institutions?

Apart of this two objectives, some other were launched, as getting social effects from mass privatisation, stimulating the development of the middle class and so. A more careful look at the process does not allow to classify those statements other way than as a demagogy.

It makes sense to repeat, that none of pointed goals was ever defended within the whole context of a complex economic policy. Contrary, in a very long preliminary period, it became clear that mass privatisation has not supporters, but rather has a powerful opponents. And if eventually it was carried out, this should be assigned to the fact that its opponents found out promising ways for achieving their interests through it. And of course, to the support (and pressure) provided by international financial institutions.

2. Rules and participants

While the mass privatisation regulation allowed for the individuals to compete with the Privatisation Funds (PFs) on an equal basis, in practice they have not acquired any considerable influence over the process. Thus, Bulgarian PFs experienced much more power than their earlier Czech counterparts.

PFs were subject to a set of rules following closely the general regulation of investment companies with some specifics. Namely, constitution of privatisation funds was subject to approval of Commission on Securities and Stock Exchange (CSSE). Granting a license to PF was subjected to publishing a prospectus containing an information analogous to that concerning an investment company. Later, the funds were allowed to register and trade their stock on stock markets as any other investment company. The management, control, accountability and information disclosure was also within general investment framework.

Specifics of PFs' regulation included the requirement for a minimal level and structure of capital, restrictions on their portfolio structure and prohibition for buy back of their stock for a 5 years period. Contrary to investment institutions funds were allowed to acquire much higher stacks in the companies from their portfolios. The main difference was the option for a PF to restructure into a holding company after the auctions.

The privatisation funds in Bulgaria were registered exclusively as joint-stock companies targeted on acquisition, management and trade of shares against the investment bonds in the process of mass privatisation.. Investment bonds were distributed among the matured Bulgarian citizens on an equal basis and might be traded directly on the auctions or contributed into a PF's capital. Against the bonds, PFs were obliged to issue nominated shares with voting rights, securing for their investors a classical set of rights on dividend and capital gains Any contribution of any sum of bonds by an individual corresponded with the relative rise of the funds' own capital. The Law on PFs prohibited the transfer of shares acquired in mass privatisation for six months after the end of the last privatisation auction.

There were no restrictions on the subjects establishing privatisation funds, but there were a lot of specifics in defining the capital structure. A minimum size of capital was required, about 70 ml Bulgarian Leva (BGL), at least 10 ml of which in cash or in securities, and not

less than 70 per cent of the capital must be acquired in form of investment bonds received from the population. This requirement aimed to ensure that funds were able to complete a minimum diversified portfolio securing a higher level for investor's protection.

Practically, this requirement became a heavy barrier preventing 11 funds from further participation in the process, i.e. about 12 percent of the total number of funds bidding for vouchers at the first round.

From the functional side, on PFs were imposed regulations concerning their investment in government securities, real estate, but the most important was that they were allowed to buy on the auctions no more than 34% from the stock of any single company privatized out of the mass privatisation list. This regulation, said to promote the active securities trade, was seriously argued by PFs, which made a lot of efforts to avoid it.

3. Privatisation Funds founders

Mass Privatisation's bonds were dispersed among thousands of very small investors increasing this way the role PFs originators. According to the Law on Privatisation Funds the founders have had no reserved rights on the account of the other shareholders, so they have secured their influence by a number of other mechanisms. First of all, it was demanded that the numerous voucher holders should delegate powers to some of the founders for the first general meeting. Thus, the founders became entitled to determine almost completely the initial management boards. Actually, most of the minor shareholders had never attended these meetings. Their opinion was not taken into consideration and they did not, in practice, participate in decision taking by founders and managers. Thus, a more detailed study becomes necessary about the economic characteristics of PFs' founders. The study distinguishes five main groups of founders, typical for the Bulgarian mass privatisation.

State financial institutions - banks and insurance companies

The privatisation funds within this category have been organized around financial institutions - state-controlled banks and insurance companies. These privatisation funds were of the largest ones and enjoyed the confidence to the originating state financial institutions in the environment of the crisis in the banking sector. The close relationship between their founders and the state promised additional advantages for fast restructuring of the acquired enterprises due to possibilities for more specific policy of corporate governance.

Companies controlled by CEO in privatized companies or by state officials

That was the second most widespread group of founders - the incumbent managers were the most active economic group possessing the economic enterprise in the most sectors. If the privatisation funds founded by former directors of enterprises are also added to this group it would undoubtedly become the largest one. It was characterized by the dominant personal and friendly relationships among the founders who played the primary role at least at the first stages of the funds' activity.

Private firms with an industry or product specialization

This was the largest group in terms of the number of participants, but not in terms of the accumulated capital. To some extent, it overlapped the above said group of state directors and officials who had already established successful business. To a great extent, they tried to gather through privatisation a portfolio in which their private firms to act as a core.

Private financial institutions

This group of founders have set the most clear and specific program for investment policy. In most cases, they had already established a successful business and their privatisation funds were targeted to play a structuring role for their business up to the point where a healthier economy will make possible its standard diversification.

Private financial and economic groups with complex development

A group of very powerful funding companies with established structures in several sectors of economy; sometimes with unclear origin of their capital. They were strongly motivated to create holding companies and strengthen their positions in various economic sectors.

Individuals and small firms

Those founders were the persons who had recently entered the business. In some cases they represented larger investors who preferred not to show themselves off at the initial phases of privatisation. Another important component were simply active economic persons who had often accumulated under their control serious amounts of investment vouchers from relatives and friends.

Table 1 gives an impression about the relative role of those founders in the process of acquiring of investment bonds from the citizens. It is clear that, the dominant PFs are those created by former (23) or incumbent (19) managers and state officials funds. According to the raised capital, they are again the larger groups, though in reverse order. State financial institutions created few but very large funds. Not-surprisingly, the smallest number of investment bonds was attracted by the physical persons and small firms - only 4% of the total PFs' capital.

Table 1

Privatisation Funds Founders

| | State financial institutions | Firms controlled by CEO/state officials | Private industry/product based firms | Private financial institutions | Private complex financial economic groups | Individuals and small firms |
|----------------------------|------------------------------|---|--------------------------------------|--------------------------------|---|-----------------------------|
| Number of PFs | 7 | 19 | 23 | 10 | 7 | 15 |
| Acquired capital (mln BGL) | 12 113 | 18 937 | 13 348 | 5 475 | 8 810 | 2 526 |

Source: Privatisation funds prospectuses

4. Supply side of the process

It is interesting to know how does the scheme itself favours the creation of active corporate control. An analysis is made of what are stakes being offered and what is their frequency. According to the scheme, 1,050 enterprises have been offered, out of which 10 have never been traded. The data relates to the rest 1040 companies. The total size of capital of the enterprises offered was 223,795,998 thousand BGL and the medium size of an enterprise - **215,188 thousand BGL.**

Table 2**Companies Stacks Offered for Mass Privatisation**

| Privatised stack | Number of enterprises | Average size of the capital of an enterprise in the group (BGL thousand) |
|------------------|-----------------------|--|
| 67 % and more | 684 | 96,476 |
| 50 - 66.99 % | 53 | 150,345 |
| below 50% | 303 | 494,516 |

Source: Centre for Mass Privatisation

The shares offered in the scheme have varied within the broad limits from 10 to 90 percent, and at least 10 percent have always been provided for restitution claims. They should not be viewed as shares changing the ownership concentration, although there were probably cases where these shares might unite with another existing large investor and influence the picture. Nevertheless, they were not related directly to the results of mass privatisation.

It seems that this arrangement of the privatisation scheme strove at several goals:

- *to offer shares that would result in formation of a categorical modes/s of control in the enterprises; this purpose, however, combined with 34 percent restriction, has been realized in a very strange way;*
- *to keep large stacks for cash privatisation, thus allowing again emergence of a strategic (i.e. most frequently majority) shareholder; to keep at minimum the number of companies whose offered stack may result in competing minor models of corporate control;*
- *the striven forms of control is envisaged to emerge from the mass scheme mainly for the smaller companies, for the bigger ones it is expected to come out from other (supposedly cash).*

5. Ownership and Control

5.1. Some methodological notes

The present study follows an approach offered by J. Scott in a comprehensive comparative survey of the corporate structure of companies in Great Britain, USA and Japan. Scott (1986) brings out the following forms of corporate governance - *control by public authorities (predominantly the state through its various ministries and agencies); 'wholly' owned companies; a special type of control in mutual and friendly societies; exclusive majority control; shared majority; exclusive minority; shared minority; limited minority and control exercised via constellation of interests*. The paper presents those forms in Bulgarian economy, excluding the first three which are irrelevant to the presented study, using Scott's taxonomic criteria more or less adapted to fit the local specifics whenever needed.

Scott further insists, that “the control status of an enterprise can be known only through a detailed investigation of the capital, commercial, and personal relations in which it is enmeshed” (Scott 1986, 48). The present study applies this approach with some limitations; it follows the latter in analyzing the controlling role not only of the largest shareholder, but also the presence of other substantial interests in the capital; it also accepts a more flexible cut-offs and case-by-case decisions for classification of the marginal cases. At the same time, the analysis of the other relations between the shareholders is more limited. In fact it was not possible to perform analysis on the interlocking directorship etc.

Although another kind of coordinated activities among the funds was traced. The 34% ceiling for the size of an acquired stack impelled PFs to form 'couples' - two funds conclude a preliminary agreement to participate for blocks of two enterprises. Thus, they acquire one block for themselves and one for the partner fund. Subsequently, they exchange mutually the governance or ownership on the 'ordered' blocks, adding 'their own blocks', i.e. by increasing their size up to the required value for control. Since the 'own' block is tending in principle towards the upper limit permitted by the law, the size of the 'ordered' block might be smaller and vary - 17% is a typical case for it. Totally, they constitute the classical 51% required for majority control. Since those 'couples' were never openly announced, their existence is a hypothetical. Numerous assertions about such 'couples' appeared during the privatisation process, but, naturally, they could not be confirmed. A much more reliable criterion is the observation of cases of joint participation of two funds in the capital of a single enterprise.

Table 3 contains the results of this test, grouped by the number of cases. Availability of a 'couple' is assumed where more than five cases of joint privatisation of enterprises had occurred. Of course, it is not claimed that the test is comprehensive. In practice, traced out were all incidents only for the combination of a 'largest-second largest' shareholder, some cases of a 'major-third' shareholder, and individual combinations of a 'second-third' shareholder in the capital of a given enterprise. In those 18 'couples' are represented over 30 percent of all funds. One can suppose with certainty, however, that the all combinations exceed that figure and also include in several cases triangular configurations ('triples') when a large PF has concluded an agreement with more than one partner.

Table 3

'Couples' of Privatisation Funds in the First Round of Mass Privatisation

| | | | |
|---|--------------------------|---------------------------|--------------------------|
| 'Couples' | 11 | 2 | 5 |
| Number of joint participation's of a 'couple' | 5 to 10 privatized firms | 10 to 15 privatized firms | Over 15 privatized firms |

Source: Author's calculations, Centre for Mass Privatisation

The presence of 'couples' allows to treat the shares acquired by two funds as an unified block for classifying the form of control in a given enterprise. This approach seems rather justified in general, since after privatisation, PFs did, in fact, legalize these blocks through block transaction on the stock exchange, though in any particular firm's capital there could be doubts about the rightness of decision to accept or reject availability of a 'couple'.

The data in Table 4 showing the size of privatized stack reveal not only that offered in the list but also some unsold shares distributed proportionally to the stacks acquired by the successful bidders; that was regulated by the law and concerned marginal unsold packages². Up to the ten percent stacks reserved for free distribution among the workers are also added

² The packages less than 5% of the capital of the privatised enterprise or less than 25 thousand shares. In some cases this resulted in slight increase of the maximum allowed ceiling (34 percent) of shareholding of privatisation funds

as acquired by the individual participants³. This size of privatized stacks is referred to as the *final privatized stacks*.

The most serious methodological problem is related to the application of criteria for the individual groups. Despite of the specifying and adapting of these criteria to the specific nature of the Bulgarian mass privatisation, there remained very complicated cases which can hardly be classified according to the groups of corporate governance. For that reason, this study has selected a principle in accordance of which all intermediate or contradictory cases are related in conformity with corporate governance typical for a given group, nevertheless that this leads in some cases to contradiction with the formal quantitative criteria for the group. Besides these peculiarities, there are also other specific features related to the peculiarities of the process itself, that are discussed in details hereinafter.

5.2. Results

Table 4 presents the newly emerged structure of various forms of corporate governance *as a result of the mass privatisation scheme*. With a view of drawing a comprehensive picture, the enterprises with an undefined form of corporate governance have to be eliminated. Thus, the final summarizing result is: the share of enterprises where corporate governance is manifested in its most strongly concentrated form - *exclusive majority*, reached 34.49 percent of all defined forms; the share of enterprises with *shared majority control* is 18.53 percent. *Exclusive minority* is observed in 20.46 percent of the cases, *shared minority* - in 16.86 percent, *limited minority* - in 3.47 percent, and, finally, corporate governance exercised through '*constellation of interests*' - in 6.18 percent.

Several proclivities could be outlined on the background of these results. First of all, there is categorical preponderance of the concentrated forms of ownership and governance. It is also taken into consideration that a serious number of firms that have remained undefined due to the low privatized stake under the scheme, have *de facto* also acquired similar forms of control. With the concentrated forms of control, a shareholder (group) has the possibility to exercise maximum control over the activity of the firm's managers. The observation that in a serious number of cases top managers of privatisation funds take part in their governance is also made on these lines. This peculiarity is also manifested as preponderance of the majority over the minority forms, and as preponderance of the exclusive over the shared control.

An impressive point is the weak presence of the forms of dispersed shareholder ownership where the minor shareholders are playing real role in corporate governance. On the other hand, they are presented in all privatized enterprises. The case in point is not only about the individual shareholders but also the numerous funds that hold minority positions in the enterprises. At the same time, the concentrated forms of control are, as a rule, of a smaller size than the enterprises with shared forms of control. This is natural to some extent since the ownership concentration is easier to achieve in smaller enterprises. On the other hand, it

³ Since each enterprise has managed the subscription itself, the only control on the actual number of subscribed shares was the privatised share of the enterprise's capital at the auctions. It was accepted that in the cases where it was equal or less than the announced share minus 10 percent for free shares, this option was performed to a full extent. Thus, the aggregate share of individual participants is increased by the maximum ten percent. In the cases where the actually privatised share at the auctions was higher, i.e. the quota for free participation was obviously not exhausted, the increase of the share of the individual participants was equal to the size of this non-performance.

reflects, however, the presence of striving to evade shareholding in an enterprise where a dominating interest is present. This striving is explainable to some extent, given the insufficient protection of minority shareholders by the legislation. It also reflects, however, the dominating notion among the shareholders of the way of participating in corporate governance over the enterprises - either all or nothing.

Table 4

Ownership and Corporate Control in Mass Privatised Companies

| | Exclusive Majority Control | Shared Majority Control | Exclusive Minority Control | Shared Minority Control | Limited Minority Control | Control by Constellation of Interests | Undef. Control by Mass Priv. |
|---|----------------------------|-------------------------|----------------------------|-------------------------|--------------------------|---------------------------------------|------------------------------|
| Companies | | | | | | | |
| - number | 267 | 143 | 159 | 131 | 27 | 48 | 264 |
| - % from the all | 26 | 13.75 | 15 | 12.6 | 2.6 | 4.6 | 25 |
| Capital ('000'BGL) | | | | | | | |
| -total in the group | 19,574,018 | 21,509,043 | 11,448,649 | 22,467,420 | 2,788,176 | 830,798 | 153,610,012 |
| -average per co | 73,311 | 150,413 | 72,004.08 | 171,507 | 103,266 | 17,308 | 581,856 |
| -median of group | 43,764 | 65,296 | 37,319 | 95,400 | 51,897 | 10,157 | - |
| Average final privatized stack of a company (%) | 78.05 | 70.57 | 73.55 | 60.10 | 69.67 | 82.44 | 19.94 |
| Average stakes in a company (%) | | | | n.a.* | n.a.* | 0.02** | |
| -of the "couple" | 59.00 | 52.32 | 41.36 | 29.41 | 14.51 | | - |
| -only of leading PF | 33.48 | 32.94 | 31.22 | 10.99 | 9.23 | | 8.14 |
| -only of 2 nd PF | 25.53 | 19.38 | 8.58 | | | | 1.33 |
| -of the 3 rd PF | 3.54 | 5.12 | 1.57 | 5.86 | 5.55 | | |
| -sum of 3 rd , 4 th , 5 th | 3.87 | 6.00 | 1.84 | 7.36 | 9.46 | | |
| -sum of all small st. | 15.18 | 12.25 | 31.91 | 12.30 | 36.15 | 82.42 | 10.00 |

* not applicable

** all institutional investors

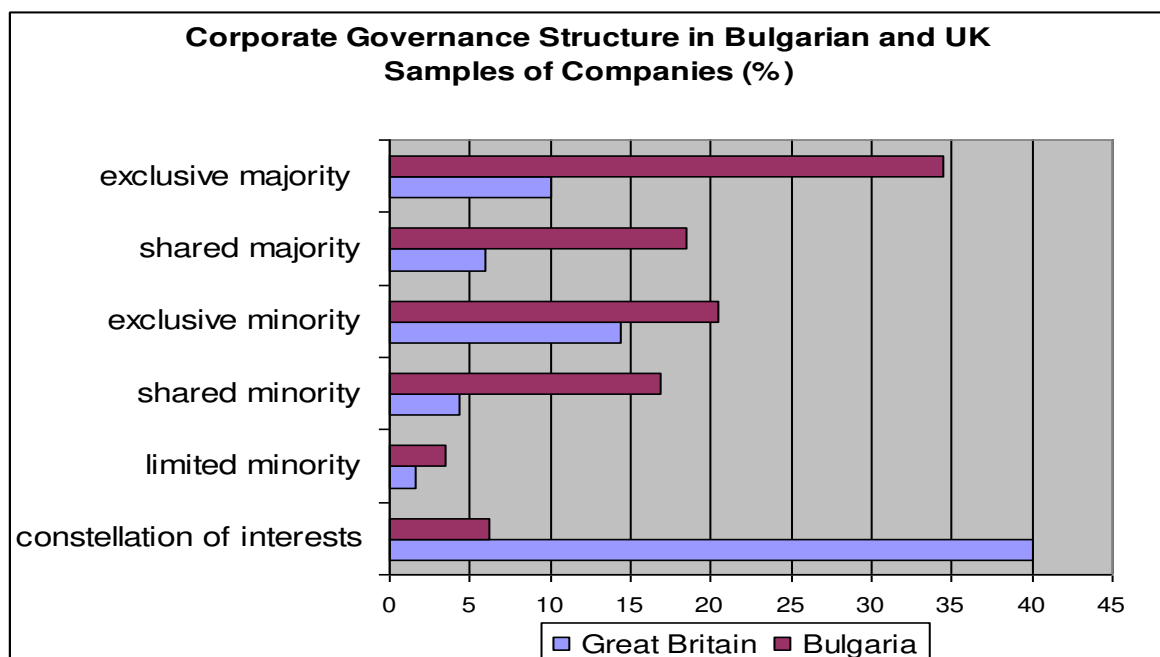
Source: Centre for Mass Privatisation

To achieve an overall idea of the nature of the corporate governance structure in Bulgaria we need to place it against the structure of a developed market economy. In this case we can do that with the data about 250 corporations from Great Britain presented in J. Scott's survey. Since it comprises several forms of corporate governance, unfamiliar to Bulgaria or falling out of the forms brought forth by mass privatisation, data was re-figured only for the forms being common for both countries. While, such an approach to the problem is hiding a certain incompatibility⁴ of data, they might serve as a guiding point for the direction of development of the Bulgarian economic reform. Scott makes two classifications according to his proposals for specifying the groups. It is believed that it enjoys broader acceptance within the researchers' community.

According to it, exclusive majority control is available in 25 companies or in 10 percent of the cases, shared majority control - in 6 percent of the cases, exclusive minority control - in 14.4 percent, shared minority control - in 4.4 percent, limited minority control - in 1.6 percent, and a constellation of interests is available in 40 percent of the cases. The remaining percentage up to 100 are held by forms being not typical for Bulgaria, such as mutual funds or solely or state-controlled firms that are not a subject of our survey. The two sets of data are plotted in the **Chart 1**.

⁴ The actual reason for this incomparableness is in the difference of the legal regulation and still more in the degree of development of corporate relationships in a country in transition such as Bulgaria and in a developed country such as Great Britain

Chart 1



One can see the enormous preponderance of a heavily dispersed ownership over the remaining more concentrated forms of control. It is that very form that imparts *the general characteristic* of the modern British economy and is, at the same time, a subject of speculations as to how far the freedom of managers extends.

In spite of the presence of some analogy the models, determined by the preponderance of the exclusive over the shared forms of control, and certifying to one and the same striving to share the control as least as possible, the overall picture is revealing a very significant difference. The most significant difference is in the share of the corporate governance forms, which is based on the complicated interaction of 'constellation' of interests. This heavy dispersal of ownership whereupon the largest shareholder does not hold more than ten percent of the whole capital of the company, can be efficiently realized only in an environment of a developed capital market. There, the efficiency of the managers in governance is controlled by increase or decrease of the price of the shares of the company.

This form is practically absent in Bulgaria, which has a twofold meaning. On the one hand, the underdeveloped capital market does not permit the efficient presence of such forms of control. On the other one, the lack of diversified shareholders' ownership does not foster active trade with corporate securities.

6. Capital Market

When developing the Mass Privatisation Scheme it was expected that it will have a strong impact on the development of the capital market. The idea was that given a process of wide dispersion of the enterprises' shares, it will create a substantial basis for trade; this was, perhaps, embodied in the restriction for maximum share which a PF could acquire in a single enterprise.

The Stock Exchange was re-opened in the beginning of 1998 when a proper, though not very sophisticated, regulation was created. The trade is split into an official and free market;

the former having tree segments "A", "B" and "C". The requirements for listing diminish gradually from "A" to the free market. Practically, all listed shares are from Mass Privatised firms or PFs, after the restructuring of the latter as holding or investment companies. Part of the volume is coming from the sale of state-held stacks, which were thus privatized. The latter were mostly minor, though, two cases of transfer of majority packages also occurred. The regulation was pretty relax for listing the shares from the mass privatisation which were registered for trade 'in mass' in May 1998 on the free market, with few exceptions listed on the official market together with the shares of some holding companies

Chart 2

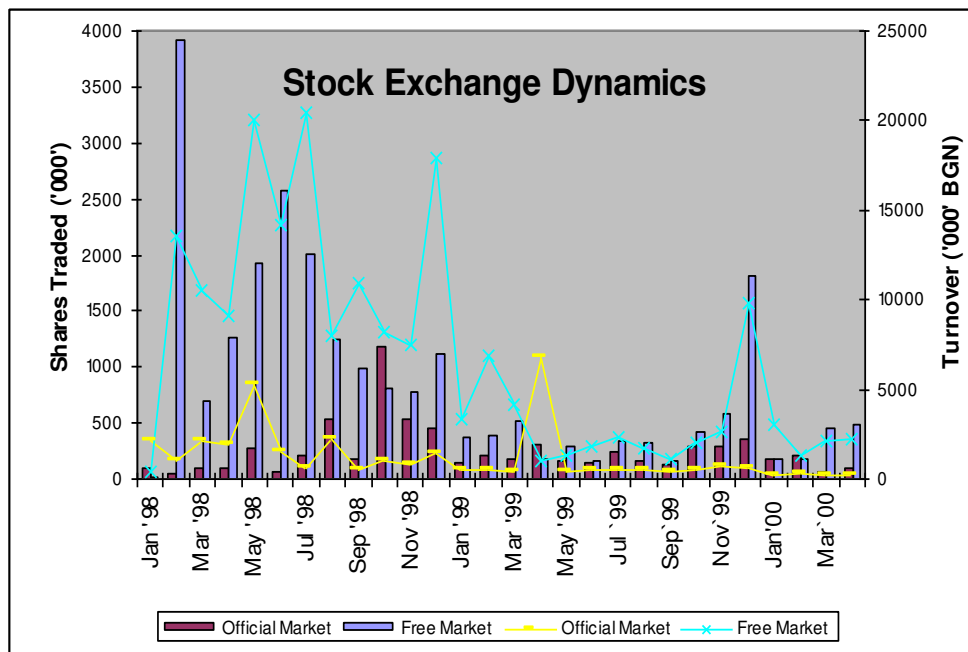


Chart 2 clearly indicates the two major features of the Bulgarian stock market - the preponderance of the of free market over the official and the stagnated or even declining trade on both markets. The most apparent evidence for the stagnated trade are the figures concerning what percent are the monthly turnover volumes of the market capitalization - after a 5 months period (Jan-May '98) when it fluctuated about 11%, with a peak of 30% in July '98 those index for the official market fell below 1%. The free market follows a similar model - fluctuation between 10-20% for the first 7 months of 1998 and bellow 5% in 1999-2000⁵ picking just in the ends of the years for accounting reasons.

The third peculiarity of the Bulgarian SE is the huge block trade, when the deals are agreed outside the floor of the SE, and the actual trade plays just a registration role. Those kind of deals were tolerated to a certain point, since PFs insisted on the opportunity to exchange the packages agreed in the process of bidding⁶ hoping that they will diminish.

⁵ Since, the actual figure for the market capitalisation of the free market is not available for the estimation is used the nominal value of all shares traded in mass privatisation 84.8 mln BGN.

⁶ This is an indirect proof of the justifiability of our 'PFs' couple' hypothesis

Although they persisted, after a period (June-Nov 98) of being suspended they started again and eventually have been separated on a specific segment of the market. To understand their significance it is enough to mention that its volume for the period Jan98-Apr00 reached 163,133 thousand BGN, which is 5 times more than the trade on the official market and 87% of that on the free market. The latter figure is perhaps even bigger because not all of the block trades were announced and recognized as such especially in the beginning of the period. On our opinion this trade is the main problem for the Bulgarian stock market, since the transfer of the large packages able to affect the control in the respective company aggravated with the practice of not paying dividends cause the share prices to change (often negatively) not accordingly to the company's performance.

As a result, from the more than 1040 companies registered on the market not more than 5 are traded at least once a week and even in those cases the volumes are low. This way it is not possible the share price' dynamic to show the performance of the company and this way to play any role in exercising the corporate control. Just the opposite when the latter is influenced by the market, i.e. when large stacks, changing the power distribution in a company are exchanged through the SE, the result is lowering of the interest of the smaller shareholders, as being threaten by further lowering of the prices of their shares.

Moreover, in many cases when the majority shareholders are strong enough there are tendencies to withdraw the company from market trade. This could be illustrated by the gradual but steady decrease of the number of the listed companies on the free market - from 1040 in May'98 - through 848 in June'99 and to 796 in April'00.

7. Conclusions

The mass privatisation scheme realized in Bulgaria comprised two possibilities for establishing efficient structures of corporate governance. On the one hand, a large number of smaller- and medium-size enterprises with high percentage for privatisation have been offered. This created prerequisites for their privatisation in a great degree within the process itself. On the other hand, mass privatisation made its aim to achieve stronger diversification of ownership among a wide circle of investors. This was the line of action of both the comparatively limited shares offered for voucher privatisation and the restrictions imposed on the institutional participants for the size of their shareholding in an enterprise, as well as the very competitive mechanism of this shareholding. In essence, the legal framework defined the privatisation funds as investment intermediaries. This repeated, to a great extent, the Czech experience and reflected, in the long run, a wider predisposition for creating an active capital market. It is inconceivable without a wide dispersal of the trade with shares among the medium and small investors as well. In the last reckoning, this was an orientation towards the corporate governance structures being exercised through the capital market.

At the same time, the possibility for transformation of these privatisation funds at a certain stage into holding companies has been laid down. Essentially, this is an orientation towards such forms of corporate governance where the concentration of the corporate governance itself is achieved through concentration of the ownership in a smaller number of shareholders. Thus, not only the capital market remains aside, but the governance itself acquires a much more direct character. In some cases, the shareholders interfered with the operational management of the enterprise. This possibility has probably reflected the undeveloped state of the capital market and the objective unfitness of many of the enterprises to be traded on it.

The survey has shown that the privatisation funds involved themselves to a much greater extent in the second opportunity and concentrated corporate governance by various forms of agreements yet in the privatisation and later, in transformation into holding companies

It is difficult to shift the responsibility for this choice to the underdeveloped capital market only. Obviously, another circle of reasons related to the undeveloped state of market relations, as a whole, in the transitional economies, is laid down in the basis. A similar process has also developed in the Czech Republic. Following the initial boom on the stock market, the trade has declined to a low level. This issue can be reviewed from another point - in essence, the domination of the concentrated forms of corporate governance is a local repetition of the global historical development of corporate governance. Its initial forms are the direct unity between ownership and governance. Diversifying the ownership among numerous agents and complicating, at the same time, its relation with governance, emerges at a much later stage when steady and long-term relations among the economic entities are established and a strongly developed legal framework allowing the implementation of corporate governance through the market is elaborated.

It is difficult to estimate what is the degree of divergence between the designed corporate governance and its actually established structure, and it is even more difficult to define it as a failure of the economic policy. The result contains, however, numerous contradictions - on the one hand, there is a strong preponderance of concentrated forms of corporate governance with their entire inherent definiteness in the approach to both the governance and the dividend policy, and in the last reckoning - to the smaller shareholders. On the other one, there is an enormous number of public companies, which, apart from being unfit for trading on the market, are imposing quite different requirements to the relations between large and small owners, to their motivation and, in the long run, to their interest for participation in the investment process.

Realizing these contradictions under which not only the individual but also the institutional minority shareholders are in a position of losers, has found expression in the numerous proposals for amendments in the legal regulation of the subject of mass privatisation. They are mainly aimed at providing a possibility for the small shareholders who do not receive any income from their shareholding in the ownership of the privatized enterprises, to get rid of it under reasonable terms. Probably, this is the outcome that will get the upper hand in the last reckoning.

The important question of freezing the capital market, however, is left open. In case of a failure even of this attempt to extend the basis of small shareholders, and, thence, of the numerous small investors, it would be difficult to predict how the market will be bricked up. And under the contemporary conditions when large masses of the population of the developed market countries are taking part in the investment processes, either directly or indirectly, through the pension and social funds, such encapsulation of the ownership in a small number of large shareholders cannot be perceived as an efficient solution of the problem.

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