universität
wien

DIPLOMARBEIT

Titel der Diplomarbeit

"Privatization and Corporate Governance in Transition Economies – A Study of Bulgaria, Romania and Slovenia"

Verfasser

Christoph Brennsteiner

angestrebter akademischer Grad

Magister der Sozial- und Wirtschaftswissenschaften
(Mag.rer.soc.oec.)

Wien, im Oktober 2008

Studienkennzahl lt. Studienblatt:	A157
Studienrichtung lt. Studienblatt:	Internationale Betriebswirtschaft
Betreuer:	ao. Univ.-Prof. Dr. Klaus Gugler

Eidesstattliche Erklärung

Ich erkläre hiermit an Eides Statt, dass ich die vorliegende Arbeit selbständig und ohne Benutzung anderer als der angegebenen Hilfsmittel angefertigt habe. Die aus fremden Quellen direkt oder indirekt übernommenen Gedanken sind als solche kenntlich gemacht.

Die Arbeit wurde bisher in gleicher oder ähnlicher Form keiner anderen Prüfungsbehörde vorgelegt und auch noch nicht veröffentlicht.

Wien, am 29. 10. 2008

(Christoph Brennsteiner)

Table of Contents

1 Corporate Governance Worldwide 2
1.1 Introduction 2
1.2 Corporate Ownership around the World 3
1.3 Corporate Ownership and Performance 5
1.3.1 Ownership Structures and Performance 5
1.3.2 Ownership Types and Performance 7
1.3.3 Are Certain Ownership Structures Better than Others? 9
1.4 Legal Systems and Corporate Governance and its Relationship with Corporate Ownership 10
2 Privatization in Central and Eastern Europe 13
2.1 Incentives, Goals and History of Privatization 13
2.2 Privatization Methods 15
2.3 Privatization Effects on Corporate Performance 17
2.3.1 Explanations for the Variance in Post-Privatization Performance 18
2.3.2 Empirical Studies on Privatization Effects 20
2.4 Privatization in Transition Economies in Central and Eastern Europe 22
2.4.1 Challenges during Privatization in Transition Economies in Central and Eastern Europe 24
3 Corporate Governance in Transition Countries in Central and Eastern Europe 29
3.1 Privatization and Corporate Governance in Bulgaria 30
3.1.1 Corporate Governance Issues during Bulgarian Privatization 30
3.1.2 The Bulgarian Privatization Process 31
3.2 Privatization and Corporate Governance in Romania 37
3.2.1 Corporate Governance Issues during Romanian Privatization 37
3.2.2 The Romanian Privatization Process 39
3.3 Privatization and Corporate Governance in Slovenia 44
3.3.1 Corporate Governance Issues during Slovenian Privatization 44
3.3.2 The Slovenian Privatization Process 45
3.4 Comparing the Transition Process in Bulgaria, Romania and Slovenia – The "Great Divide" 47

4 Transition in Bulgaria, Romania and Slovenia – An Empirical Analysis of the 50 Largest Companies in the Respective Countries 50
4.1 Introduction 50
4.2 The Data 50
4.2.1 Explanation of Variables 51
4.2.2 First Layer Variables 53
4.2.3 Ultimate Layer Variables 57
4.2.4 Number of Pyramid Layers 62
4.2.5 Limitations of the Empirical Analysis 63
5 Conclusion 65
6 References 66
6.1 Bibliography 66
6.2 Internet Sources 75
Appendix A - Curriculum Vitae 76
Appendix B - Abstract in German 77

List of Figures

Figure 1: Effect of largest owner's share on a firm's market-to-book value 6

Figure 2: Annual privatization revenues for Governments, 1988 - 1999 in billion USD 14

Figure 3: Private Sector Share of GDP in CEE Countries in 2001 25

Figure 4: Development of Economic Output and GDP per Capita in CEE countries 27

Figure 5: Distribution of Privatization Deals by the Value of Fixed Assets (until 1996) 32

Figure 6: Monthly Market Capitalization of the Bulgarian Stock Exchange (BSE) and Performance of the SOFIX, Bulgaria's leading share index 36

Figure 7: Development of Corruption Perception Index 37

Figure 8: Foreign Investment in Privatized Companies, USD million 43

Figure 9: Distinct Mechanisms during Slovenian Privatization 46

Figure 10: Ownership Structure of Automobile Dacia S.A. in 2001 51

Figure 11: Development of Private Ownership 55

Figure 12: Share of Foreign Direct Ownership 57

Figure 13: Share of Private Ultimate Ownership 60

Figure 14: Share of Foreign Ultimate Shareholdings 61

Figure 15: Change in Type of Ultimate Shareholder 62

List of Tables

Table 1: Bulgarian Privatization Deals with Foreign Investors 34

Table 2: Corporate Governance Indices: Romania vs. CEE and OECD 39

Table 3: Comparison of Romania's and Poland's Privatization Funds' Responsibilities 41

Table 4: Cash Flow Rights of Largest Direct Shareholders 53

Table 5: Types of Largest Direct Shareholders 54

Table 6: Frequencies of Nationalities of Largest Direct Shareholders 56

Table 7: Cash Flow Rights of Largest Ultimate Shareholders 58

Table 8: Cash Flow per Voting Rights Ratio 58

Table 9: Types of Largest Ultimate Shareholders 59

Table 10: Frequencies of Nationalities of Largest Ultimate Shareholders 61

Table 11: Number of Pyramid Layers 63

List of Abbreviations

BGL	Bulgarian Leva
BSE	Bulgarian Stock Exchange
BVB	Bucharest Stock Exchange
CEE	Central and Eastern Europe
EBRD	European Bank for Reconstruction and Development
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IAS	International Accounting Standards
IMF	International Monetary Fund
IPO	Initial Public Offering
MEBO	Management-Employee Buyout
NAP	National Agency for Privatization
OECD	Organisation for Economic Co-operation and Development
POF	Private Ownership Fund
PPCA	Post-Privatization Control Act
PPP	Purchasing Power Parity
ROA	Return on Assets
SIP	Share Issue Privatization
SOF	State Ownership Fund
SOFIX	Sofia Stock Index
UK	United Kingdom
US	United States
USD	United States Dollar

Abstract

This thesis offers a comprehensive review of the privatization process in Central and Eastern Europe and its impact on important corporate governance issues, such as ownership structures and regulatory systems. The paper is organized as follows: Chapter 1 reviews the existing literature on global corporate governance issues. Chapter 2 highlights the main elements of privatization in Central and Eastern Europe. Chapter 3 deals explicitly with the development of corporate governance and privatization in Bulgaria, Romania and Slovenia, and compares the outcomes of the overall transition processes. Chapter 4 illustrates the results of my empirical study on the effects of privatization on the ownership structures of the 50 largest enterprises in the observed countries. Chapter 5 concludes and summarizes.

1 Corporate Governance Worldwide

1.1 Introduction

„Corporate governance deals with the ways in which suppliers of finance
to corporations assure themselves of getting a return on their investment."
(Shleifer and Vishny, 1997, p. 737)

This introductory phrase from the abstract of the often-cited paper "*A Survey of Corporate Governance*" written by Andrei Shleifer and Robert W. Vishny illustrates the quintessence of corporate governance. In assuring that the interests of the company's management and its stakeholders, being it shareholders, creditors or other related parties, are aligned, corporate governance deals with a considerable amount of issues that bear reference to the principal-agent problem, resulting from the separation of ownership and control.

The agency theory's origin traces back at least to Adam Smith (1776) who firstly doubted that the managers of a company, owned by other investors, would watch over their capital with the same vigilance with which individually liable managers would watch over their own.

200 years later his idea had provided the basis for Jensen & Meckling (1976) who introduced the concept of the principal-agent problem to the modern corporation, by explaining that complete contracts between the manager and the financier are not feasible, and therefore, create significant residual control rights for the managers of a company. These discrepancies in the control rights between the two parties result in the occurrence of agency costs, which are defined as "the sum of the monitoring expenditures by the principal, the bonding costs incurred by the agents and a residual loss" (Jensen & Meckling, 1976). The publication of this paper has increased the significance of corporate governance considerably, and has produced a new field of research for academics.

The main objectives of corporate governance – aligning the interests of managers and owners and thereby reducing agency costs – imply the implementation of a wide range of

governance mechanisms. Denis and McConnel (2003) characterize these mechanisms on the basis of their internal or external influence on the company.

Internal corporate governance includes issues, such as the size and structure of the board of directors, compensation of management and ownership structures. The latter is of primary interest in the course of this paper, as the change of ownership is investigated on an empirical basis for the Central and Eastern European countries Bulgaria, Romania and Slovenia.

External corporate governance comprises outside control mechanisms, such as mergers and acquisitions or the legal system affecting a firm's governance. Again, the latter mechanism is an important issue I deal with in this paper, as ownership changes are often closely related to legal or regulatory changes, especially in the transition economies I am focusing on.

The literature on international corporate governance has observed strong variations in these mechanisms across different countries, resulting in a fistful of core corporate governance systems. In the next chapter I review the existing literature and illustrate the main differences in ownership structures and legal or regulatory systems around the world. Furthermore, I explain the link between these two mechanisms and their interrelation with the corporate governance system in the very country or region.

1.2 Corporate Ownership around the World

For many years the literature has accepted the image of a modern corporation expressed by Berle and Means (1932) who argue that in a modern world ownership and control is separated among the financiers and the managers of a company. More recently several studies had observed that this may be true for the 200 largest companies in the United States during the time when Berle and Means had published their book, *The Modern Corporation and Private Property*, but in the global scheme of things ownership structures are "far from universal" (La Porta et al., 1999).

In fact, ownership concentration is the most prevalent form of equity ownership outside the United States (US) and the United Kingdom (UK), where ownership is dispersed among a

large number of small individual shareholders. Even in the United States there are a considerable percentage of companies, which are publicly traded, with significant ownership concentration (Holderness and Sheehan, 1988).

Most of the literature on ownership structures outside the UK and US give attention to Germany, Japan and presently Central and Eastern Europe. Franks and Mayer (2001) demonstrate that large German corporations are dominated by powerful blockholders, such as other companies or families. Besides, large commercial banks play a significant role through the use of proxy votes of individual shareholders and thereby increase their voting power in comparison to their equity ownership considerably. Prowse (1992) examines ownership structures in Japanese corporations and demonstrates that financial institutions hold significant stakes in many companies. In addition, large firms are often part of cross shareholdings known as keiretsus. Therefore, the literature often roughly differentiates between market-centered economies in the UK and US and bank-centered economies in Germany and Japan.

In another study, Franks, Mayer and Wagner (2005) give reason for the unequal development of ownership in Germany compared to the United Kingdom. While in Britain companies used external finance to grow through acquisitions, German corporations preferred to invest internally and acquired only partial stakes in other companies. As a result ownership concentration remained at a high level. Furthermore, increasing intermediation by financial institutions and other corporations had strengthened their positions in German firms considerably, whereas financial intermediation was virtually nonexistent in the UK.

Partial acquisitions and intermediation by financial institutions had led to the emergence of corporate pyramids, which until now dominate the picture of corporate ownership in European countries except for the UK. Pyramidal structures, another issue my empirical analysis deals with explicitly, enable controlling shareholders to increase their control rights greatly in excess of their cash flow rights (La Porta et al., 1999). In their quantitative analysis of 27 wealthy economies around the globe La Porta et al. give evidence that 26 percent of the companies controlled by an ultimate owner are part of a pyramidal structure.

Apart from the “big four” there exists a moderate amount of literature on ownership concentration in other parts of the world. Otten, Heugens and Schenk (2006) document owner-

ship concentration as most prevalent in continental Europe, Asia and South- and Central America. Xu and Wang (1997) and Valadares and Leal (2000) observe high levels of concentration in China and Brazil respectively.

Countries with a high level of ownership concentration usually report a high percentage of family ownership. According to Burkhart, Panunzi and Shleifer (2003) this holds true for both, privately held and publicly traded companies. They conclude that "most firms in the world are controlled by their founders or by the founders' families and heirs".

Apart from family, corporate and bank ownership, state control is one of the principal ownership types. Especially in many European countries governments still have large control and cash flow rights in companies located in the very countries, resulting from post-war state ownership in Western Europe and the previous planned economy in Eastern Europe. Particularly transition economies in Eastern European countries still show a wide distribution of state owned companies in many industries (Frydman et al. 1997). State ownership is of primary importance in the countries of my empirical analysis, Bulgaria, Romania and Slovenia, and will be discussed in more detail later in this paper.

1.3 Corporate Ownership and Performance

1.3.1 Ownership Structures and Performance

Many research papers have explored the impact of ownership structures and types of owners on indicators, measuring the economic performance of a company, such as asset prices, market-to-book values (Thomsen and Pedersen, 2000), value-to-sales ratios (Lloyd, Hand and Modani, 1997), price-to-earnings ratios (Zeckhouser and Pound, 1990) or Tobin's Q (McConnell and Servaes, 1990). Many of these studies, and all of the ones I have mentioned above, conclude that ownership concentration is to some extend beneficial to a company's performance.

Thomsen and Pedersen (2000) demonstrate in a study comprising 435 large European companies, that the relationship between ownership concentration and a firm's market-to-book value, as well as its asset return, follows a quadratic function, meaning that large

shareholders are beneficial, but can be detrimental to a company's performance above a certain level of ownership concentration (see Figure 1):

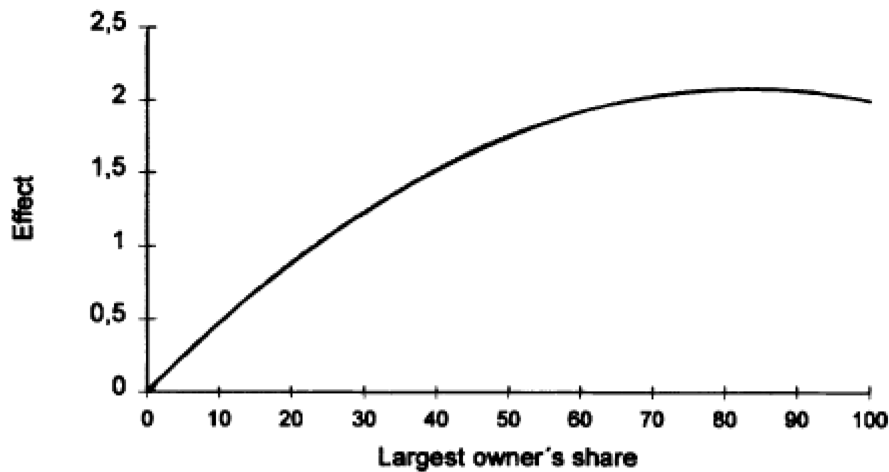

Figure 1: Effect of largest owner's share on a firm's market-to-book value
Source: Thomsen and Pedersen (2000)

The authors remark that shareholders with a controlling stake may use their power to enforce entrenchment, which has negative effects on firm performance.

In an analysis of 309 listed Swedish companies during 1991 and 1997 Cronquist and Nilsson (2003) find a significant negative effect of controlling vote ownership on company value as measured by Tobin's Q. They show that families in Sweden are more likely to entrench their control considerably via dual-class shares and other control mechanisms, and therefore, increase agency costs significantly. Gedajlovic and Shapiro (1998) indicate that the relationship between ownership concentration and profitability across countries differs. Whereas they find a negative influence of diversification on company performance in the United States and a positive in the United Kingdom, no significant relationship in France, Germany or Canada has been determined. Bergh (1995) finds that ownership concentration is positively related to economic efficiency, signifying that companies with large shareholders are more likely to undertake strategic and cooperative synergies, and thus, achieve competitive advantages. Burkhart, Gromb and Panunzi (1997) note that ownership concentration may be beneficial to company performance ex post, but creates ex ante threats of expropriation. These threats have adverse effects on managerial performance, such as a reduction of the effectiveness of incentive schemes, based on company perform-

ance, because of stronger monitoring. On the other hand, Thomsen and Pedersen (2000) remark that large owners have stronger control rights to monitor managers, and therefore, align the interests of the firm's managers and its shareholders.

Generally, the literature agrees that large shareholders are increasing corporate performance up to a certain point.

1.3.2 Ownership Types and Performance

Apart from studies on the relationship between ownership concentration and company performance, scientists have been measuring the influence of certain types of owners on a firm's profitability.

Thomsen and Pedersen (2000) believe that the statement - owners always strive for maximizing a company's economic profit - cannot be generalized, as many types of owners, such as institutional investors, banks or other corporations sometimes have an intermediary function for the final owners, probably the ultimate owners within a pyramidal ownership structure. Hence, a company's performance depends significantly on preferences set by the firm's controlling parties. Although the controlling owners of a corporation may behave in a utility maximizing manner, their utility depends on other factors as well, apart from increasing economic profit or shareholder value. Such other goals are for instance ensuring constant liquidity, reputation building, transferring knowledge or political goals. In their study Thomsen and Pedersen find that companies with institutional investors as owners are relatively large in size and characterized by higher dividend payments and low cost of capital.

According to their findings, Thomsen and Pedersen conclude that larger firms need to disperse their ownership structure and pay out a large share of their profits in order to attract new financiers, and to grow more extensively in size. Besides, large companies tend to have an advantage in raising additional funds via the stock exchange, and therefore, reduce their cost of capital considerably by lowering their debt-to-equity ratio.

Generally, financial institutions have a positive influence on a company's market-to-book value in comparison to corporate, family or government ownership, as the latter, and espe-

cially the last ownership type, are seen to have other goals apart from economic performance. Pound (1992) supports this finding by stating that specialized investment companies with large stakes in corporations improve firm performance significantly. Amihud and Lev (1999) indicate that institutional investors reduce agency costs resulting from the separation of ownership and control.

By measuring the impact of ownership types on the return on assets (ROA), Thomsen and Pedersen (2000) find relatively similar results as for market-to-book values. In contrast, corporate and family ownership lead to a stronger incentive to grow internally as measured by sales growth. This indicates that the type of a firm's controlling owner has a significant influence on the strategy of the very company (profit versus growth objectives). Whereas institutional owners diversify their portfolios including the companies they provide capital with, and therefore, prefer shareholder value and regular returns on their stake in form of dividends, families and also other companies have more long-term objectives and value growth, liquidity and a stable development of economic performance.

Governments tend to favor social welfare by providing employment to the public. Therefore, economic performance sometimes is just secondary in a government-owned company's corporate strategy. This implies that government-owned companies perform worse in comparison to their private counterparts, since non-profit-maximizing behaviour is particularly common in those company types. Generally, the literature gives evidence that private ownership is associated with better company performance than state ownership (Denis and McConnell, 2003). In the chapter "*Privatization in Central and Eastern Europe*" I compare state and private ownership with each other. Since the countries of my empirical study are currently within the final stage of a transition process from state to private ownership, I pay particular attention to this issue in a separate chapter.

With the introduction of executive stock options in many large corporations, the emergence of leveraged buyouts by managers, and Eastern European privatizations to insiders, such as workers, employees or managers, employee stock ownership has become an important ownership type. Djankov and Murrel (2002) differentiate between non-managerial and managerial employees within this ownership category. Kang and Sorensen (1999) believe that companies nowadays are more dependent on highly skilled professionals who receive ownership stakes in the very company as a form of managerial incentive. Blasi, Conte and

Kruse (1996) find a positive relationship between this form of managerial compensation and economic performance. Amihud and Lev (1999) remark, that performance-based compensation, such as executive stock options, aligns the interests of managers and stockholders and reduces overall risk aversion of the managers to undertake more profitable projects.

Regarding worker ownership or, in other words, non-managerial ownership, the literature is generally not congruent. Whereas Frydman et al. (1997) and Djankov and Murrel (2002) associate worker ownership with worse performance than with other types of insider ownership, Jones (1993) reports a positive relationship between a company's profitability and increased participation of workers or employees in control and/or economic profits.

1.3.3 Are Certain Ownership Structures Better than Others?

Different ownership structures and types of ultimate owners have both, advantages and disadvantages. There is not "the right" way how corporations should be organized. This conclusion dates back to Lawrence and Lorsch (1967) who point out that "the best way to organize depends on the nature of the environment to which the organization relates". Demsetz and Lehn (1985) corroborate this hypothesis by arguing that in the long run a company which is able to overcome market pressures, especially from heavy competition, will develop an ownership structure that is close to optimal for the very company. This implies that ownership structures and generally, corporate governance systems vary greatly across countries.

In a quantitative analysis comprising twelve European countries, Thomsen and Pedersen (1997) measure that 66 percent of the variance in corporate ownership (as measured by R-squared in a multi-nominal logistic regression) are explained by the four factors stock market size, banking concentration, frequency of dual class shares and openness of the economy. While the presence of large banks and the implementation of dual class shares support dominant minority ownership, especially family ownership, the size of the stock market and the openness of the economy towards foreign investors have negative effects on the distribution of dominant minority shareholders.

Apart from these factors, one major component of a company's business environment is the firm's regulatory surroundings it is operating in. The next chapter deals with laws and regulations and its effects on corporate governance explicitly.

1.4 Legal Systems and Corporate Governance and its Relationship with Corporate Ownership

A well functioning corporate governance system would not be working without a developed regulatory system providing a legal framework for companies operating in the very region. Therefore, corporate governance issues, such as the composition of the board of directors, executive compensation or ownership structures, are strongly related to a company's regulatory or legal environment.

In previous chapters I have already discussed that corporate governance mechanisms vary considerably across countries. Therefore, it is obvious that laws enacted by the governments with regard to corporate governance differ significantly from one country to another.

In *Law and Finance* (1998) La Porta et al. analyze investor protection by law in 49 different countries with publicly traded companies on the basis of variables that are related to shareholder and creditor rights. They categorize the countries in their study according to the four general groups: common-law countries, French-civil-law countries, German-civil-law countries and Scandinavian-civil-law countries. The authors find that legal protection to shareholders is statistically different in countries with respect to the origin of law. They conclude that, generally speaking, investors in common-law countries, such as the US or the UK, have the strongest rights with respect to shareholder protection.

But it is not only the laws on the books that determine investor protection. It is also the quality of enforcement by the judicial system that affects the efficiency of a country's corporate governance system. La Porta et al. (1998) show, that the quality of law enforcement is the highest in Scandinavian countries, followed by German civil-law countries and common-law countries. French-civil-law countries are lagging behind in both, the quality of the laws on the books and their enforcement.

So how do these differences in quality of a country's regulatory system influence ownership structures? La Porta et al. (1998) show that to some extend, ownership concentration is a substitute for poor shareholder protection. In their study they document a higher level of ownership concentration in French civil-law countries, those that were characterized as the countries with the lowest quality of investor protection. The authors conclude that in countries with poor investor protection shareholders might need larger stakes in companies to monitor the managers, and therefore, avoid expropriation enforced by the management. Furthermore, weak investor protection impedes a company to attract minority shareholders, which automatically leads to higher ownership concentration. Another study carried out by the same authors (La Porta et al., 1997) provides evidence that higher investor protection supports the development of financial markets, as shareholders accept lower rates of return and, as a consequence, companies are more likely to use external sources to finance their operations.

Generally, the literature agrees with the findings of La Porta et al. that an efficient regulatory system is an important corporate governance mechanism and helps to align the interests of managers and shareholders within a corporation.

Kang and Sorensen (1999) describe the regulatory system as the "foundation of modern corporate governance", because it is protecting investors in order to exercise and transfer control rights, such as the right to claim a dividend payment, the right to vote or the right to inspect corporate books to obtain necessary information. Managers in countries with low shareholder protection hold up to twice as much excess cash in comparison to corporations in countries with good legal protection (Dittmar, Mahrt-Smith and Servaes, 2003), which supports the statement that companies in common-law countries tend to pay out a higher fraction of profits in form of dividends than firms in countries with weaker protection standards, after controlling for firm reinvestment opportunities (La Porta et al., 2000).

If investor protection standards are the highest in common-law countries, such as the US or the UK, and these improve corporate governance systems and support the development of financial markets, why we do not see a convergence towards the Anglo-Saxon system of corporate governance in other countries? Ottens, Heugens and Schenk (2006) explain that although there are "global ideals" of corporate governance systems, including greatly developed financial markets like in the US with the possibilities to generate huge financial

returns, no one is in every respect superior to all others. The economies in Western European and South-East Asian countries are prospering too, indicating that there is no absolute need for adopting an Anglo-Saxon corporate governance system. Surely corporate governance reforms will be introduced to adopt some regulations from “global ideals” to reach or maintain financial effectiveness, but this will happen in an adequate manner in order not to destroy local privileges and corporate governance traditions. Therefore, policy makers tend to develop their own corporate governance reforms in order to achieve “social peace”.

2 Privatization in Central and Eastern Europe

2.1 Incentives, Goals and History of Privatization

The term privatization refers to the transition of ownership of assets formerly owned by the state into the hands of private entities. Privatization is a phenomenon that is relatively new in the fields of economic history. To describe the purpose and the objectives of privatization, it is recommendable to give a brief introduction on the history of the emergence and the development of this important economic process.

Milton Friedman, one of the most influential economists in history, advocates in his book *Capitalism and Freedom* (1962) the lowering of the role of the government in free markets in order to create political and social freedom. Thus, privatization is one way to use these free markets to allocate resources efficiently within an economy, and to respond to failings of state ownership (Megginson and Netter, 2001). Indeed at the time, when Friedman's book had been published, the degree of state ownership was tremendously high, as a consequence of nationalization processes implemented by the governments to stabilize and regulate national economies after World War II, the Great Depression and the downfall of the colonial empires. During that period governments around the world were of the opinion that the state should at least control the core industries, such as telecommunications, electricity, non-road transportation, postal services and to some degree monetary services to provide economic stability to the public.

The first steps towards a large-scale privatization program were taken by Konrad Adenauer, first Chancellor of West Germany, who enforced the partial privatization of two large companies, Volkswagen and Preussag, in 1961. Due to an economic downturn that followed afterwards, further privatization measures disappeared in government drawers, and as a result, many small shareholders had to be bailed out.

Therefore, the first modern privatization program was introduced by Margaret Thatcher, former prime minister of the United Kingdom, in the early 1980s. After her victory for the conservative party in the prime elections on 4 May 1979, large companies in major industries, such as British Petroleum, British Telecom or British Airways, were privatized under

the so called "Thatcherism". The main goals of large-scale privatization programs set by the Thatcher government include raising revenues to finance possible budget deficits, promoting economic efficiency, providing opportunities to foster competition, reducing government interference within the economy and developing national capital markets (Price Waterhouse, 1989a,b).

Hinds and Pohl (1991) describe the state as an intermediary party which is actually owned by the population. Hence, the authors come to the conclusion that the population is the ultimate owner of all assets owned by the state, and the overall objective of privatization is therefore the elimination of the state as an intermediary by assigning responsibilities directly to individuals. The disadvantages of state intermediation will be discussed in a further chapter "*Privatization Effects on Corporate Performance*", where I compare state owned with privately owned companies.

During the 1990s many other countries in Europe, Latin America and Asia have adopted the policy towards "denationalization" and introduced large privatization programs. Within eleven years the revenues for the governments involved in privatization processes have increased more than threefold from nearly 40 to 140 billion USD (see figure 2).

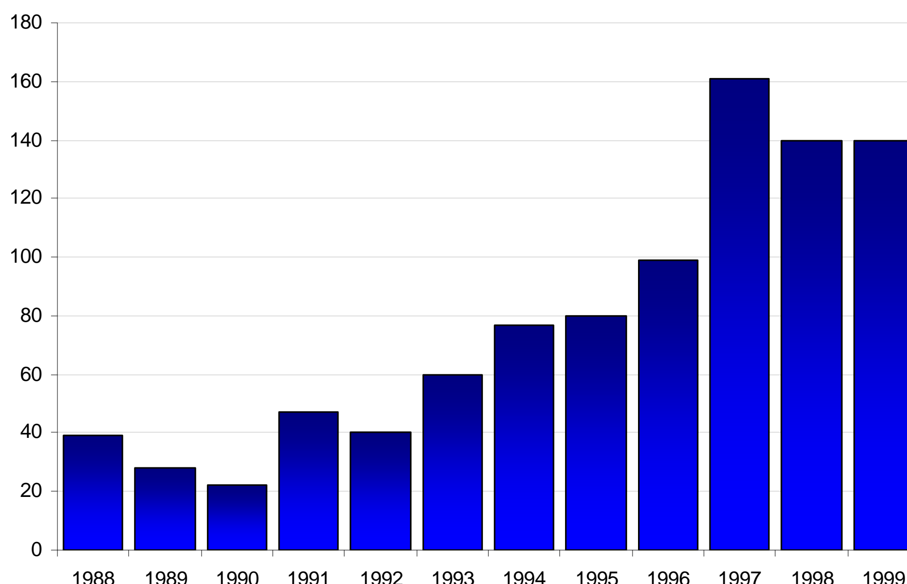

Figure 2: Annual privatization revenues for Governments, 1988 - 1999 in billion USD
Source: Megginson and Netter (2001)

The last regions to implement large-scale privatizations in order to create efficient market economies include the former Soviet-bloc nations and Central and Eastern European countries. Due to the special focus of this paper on those countries, I deal with them explicitly in the separate chapter "*Privatization in Transition Economies in Central and Eastern Europe*".

2.2 Privatization Methods

In the past decades privatization has taken place in a variety of different forms. In a paper focusing on transition economies in Central and Eastern Europe, Brada (1996) gives a reasonable classification of privatization methods. One way to divest state-owned assets is privatization through restitution of property that has formerly been expropriated by the state from the assets' initial owners. This form of privatization was very common for agricultural land and real estate in Eastern European countries during the 1990s. However, privatization through restitution is associated with difficulties in determining the legitimate owner of the formerly expropriated asset.

Furthermore, assets are privatized through a direct sales process to individuals, corporations or groups of domestic or foreign investors. After the reunification of East and West Germany the government used this method to privatize many large companies via so called "Treuhandanstalten". These institutions had been in charge of settling the privatization process as quickly as possible, and supporting the companies in order to become competitive within the first years after privatization. Another way of selling ownership stakes to other parties is through a public share offering, similar to initial public offerings (IPOs) in the private sector. This method enables the government to attract a greater number of potential investors and simultaneously promotes the development of capital markets.

The third category is mass or voucher privatization, which entitles citizens to receive shares in state-owned companies through the purchase or free receipt of vouchers. Governments in Eastern European countries, particularly in the Czech Republic, introduced voucher privatization extensively to transform public ownership of corporations into private hands rapidly. Voucher programs were carried out in several tranches, including a limited amount of assets. The strengths of voucher privatizations are the fast process of transition and a relatively strong transparency (Brada, 1996). However, Hinds and Pohl

(1991) find that distribution through vouchers may lead people to make the wrong decisions regarding where to invest as a result of a lack of information. Insiders will therefore benefit considerably thanks to an information advantage.

The last method, privatization from below, is not a real transition process, but rather a result of the emergence of a free market. This category comprises the start-ups of new businesses, which have a considerable share in the development of the private sector.

The methods specified above are complementary paths to enforce large-scale privatization and many governments have used a combination of them to promote a free market economy. Megginson et al. (2004) examine in a comprehensive study comprising 1,992 privatizations that the choice of an adequate privatization program depends on several factors, such as the nature of the capital market, political and firm-specific factors. Governments are more likely to carry out public share offerings if capital markets are less developed, which implies that governments thereby try to boost stock market liquidity and capacity. Furthermore, there are considerably more share issue privatizations (SIPs) in countries with a relatively equal distribution of income, since more potential investors are to be attracted and willing to pay a price which is not extensively under the fair value of the enterprise. Generally, governments prefer to privatize profitable firms as they seek acceptance among the population for their privatization program.

When government interventions are relatively seldom, meaning that potential investors have good perspectives to maintain full control over a corporation, investors are more active in enforcing direct asset sales.

Finally, privatization by means of SIPs is more likely to occur in bull markets than in bear markets. Bortolotti, Fantini and Siniscalo (2001) give evidence that the choice of the privatization method depends significantly on the budgetary situation of the government. The greater the government's deficit the higher the likelihood that it will privatize by means of public offerings.

Apart from decisions on the right privatization method, governments have to consider the optimal timing and pace of the transition process. Generally, the literature disagrees about whether restructuring measures should be performed before the actual privatization process

by the government, or passed on to the prospective private owner. Hinds and Pohl (1991) argue that governments should carry out restructuring methods that do not require major investments in order to attract a greater number of potential buyers. Such measures are for instance the elimination of labor and financial problems, which discourages interested parties. More capital-intense investments regarding the restructuring of a corporation should be left to the private sector. Nellis and Kikeri (1989) support this statement by explaining that governments are better capable of undertaking labor restructuring by using pensions or unemployment payments. In a study comprising 236 Mexican companies Lopez-de-Silanes (1997) finds no significant increase in the prices paid for privatized companies, which have been part of a major restructuring process. Rather restructuring bears substantial costs that are not compensated by higher premiums. He therefore recommends that governments should sell companies immediately without major restructuring measures.

Apart from decisions on the restructuring process of privatized firms, another related practical question is whether the state should sell enterprises all at once, in stages or retain a controlling stake in the company, even after partially privatizing the firm. Hellwig (2006) argues that partial privatizations generate further conflicts of interest, as the state is responsible for regulating access for other market players to foster competition, whereas it is interested in cashing in on the profits of the undertaking. Such blocking stakes are relatively common in private industries in many European Countries, such as France and Germany. George and Prabhu (2000) find that companies are less likely to carry out restructuring after privatization if the government retains dominant interests, as it depends on employees and unions in order to assure political support. According to a study of Boardman and Vining (1989), partially privatized companies do not perform better and often worse than fully privatized or even state owned corporations. However, Frydman et al. (1997) show in a study containing a large sample of mid-sized companies in Hungary, the Czech Republic and Poland, that partial privatization does not result in worse performance of privatized companies, than in the case of fully divested corporations.

2.3 Privatization Effects on Corporate Performance

There exists a vast amount of literature which deals with privatization effects on corporate performance. Due to the wide spectrum of my work I can not depict every scientific paper within this field. I have tried, however, to review an adequate number of papers that will

provide a representative view of the core findings of important scholars, dealing with privatization and firm performance.

Privatizing a corporation results in a major change in a company's ownership structure and consequently has a considerable impact on corporate performance. Therefore, privatization provides an interesting setting to evaluate the effects of ownership on firm performance (Denis and McConnell, 2003).

Many studies provide evidence that public firms are lagging behind in terms of corporate efficiency. One key explanation for this economic deficit is the statement that public companies are more likely to address the objectives of politicians rather than care about maximizing efficiency (Boycko, Shleifer and Vishny, 1996). Thus, excess labor spending is another characteristic of many companies before they are privatized, since politicians focus on securing jobs and minimizing unemployment rates to gain acceptance among voters.

Furthermore, residual claims on state-owned enterprises are confusing and unclear, resulting from highly dispersed ownership (actually the ultimate owners are the taxpayers) and weak incentives to increase efficiency. Hinds and Pohl (1991) remark, that ownership by all is equal to ownership by nobody. Aligning the interests of a public company's managers and its owners (the nation's citizens) is therefore difficult to implement, since citizens are less able to monitor the management than in the case of private ownership (Shleifer, 1998).

Finally, public firms have fewer difficulties in raising additional capital, since the government is responsible for funding and enjoys nearly unlimited opportunities to access external finance. This results in "soft" budget constraints, since bankruptcy is basically unlikely to occur. The threat of financial distress, private companies are facing, is practically non-existent, and results in greater inefficiency of public enterprises (Frydman et al., 2000).

2.3.1 Explanations for the Variance in Post-Privatization Performance

On average privatization results in an improvement of corporate efficiency and increases a firm's profitability. This is a very general statement, since in reality privatization effects vary considerably across different types of privatization. One important question is which

type of owner improves efficiency the most after privatization. Boycko, Shleifer and Vishny (1996) argue that restructuring is less likely to occur when the objectives of the new owners are close to those of politicians. They state that in many countries insiders, such as managers or other types of employees, receive considerable control rights even before privatization. These types of owners typically have similar objectives to those of politicians, such as job security. Especially employees are even more concerned about employment and support excess labor spending. As a consequence, restructuring in order to improve efficiency occurs only to a limited extend.

Managers as owners show a tendency towards empire building, and thus, are more concerned about employment than outside shareholders, such as institutional investors. The latter are most likely to enforce restructuring in order to maximize company value. Boycko, Shleifer and Vishny (1996) mention that even after privatization governments often support excess labor spending by granting subsidization to companies. Large outside investors are less cash constrained and usually do not rely on financial aid from the state. Therefore, these shareholders are less likely to accept subsidies to abandon heavy restructuring to keep up employment.

In the chapter "*Ownership Structures and Performance*" I have outlined that large shareholders are to some extend beneficial to a company's performance. The same holds true for privatization, since agency costs of managerial control may increase without the presence of large investors, even when the costs of political control fall (Shleifer and Vishny, 1997). Claessens and Djankov (1999) echo these conclusions in a study of privatized Czech companies, by reporting a negative relation between employee ownership and profitability, whereas they measure efficiency gains with the presence of large shareholders in a privatization process. Also Frydman et al. (1997) find no significant improvements in corporate performance when ownership resides with company insiders, whereas outside ownership after privatization is positively linked to firm performance.

The presence of foreign ownership is generally associated with greater efficiency gains. Boubakri, Cosset and Guedhami (2001) analyze 209 privatized firms from 39 countries over the period 1980 to 2001, and report significant profitability and efficiency gains with the presence of foreign ownership. Lopez-de-Silanes (1997) finds similar results for privat-

ized Mexican firms. The author concludes that foreign ownership drives up competition and consequently leads to higher premiums for the governments in auction privatization.

Although governments in many states realize that foreign ownership is related to significant advantages in terms of technological and managerial progress, which contributes to the overall modernization of a country's economy, many nationals are sceptical due to fears of foreign control and exploitation (Hinds and Pohl, 1991). In fact, foreign ownership is a very limited resource, since international investors are facing political, legal, informational and linguistic barriers. These obstacles prevent foreigners from investing in countries they are not familiar with. Therefore, it is the role of the state to liberalize foreign investment laws to attract foreign capital.

2.3.2 Empirical Studies on Privatization Effects

In many empirical studies scholars provide evidence that the arguments cited above are of practical importance. In their study of the 500 largest non-financial Canadian firms, Boardman and Vining (1992) report significantly higher levels of profitability and efficiency for private companies after controlling for size and market share. Dewenter and Malatesta (2001) show in their empirical work covering the 500 largest non-US companies in 1975, 1985 and 1995, that private firms are more profitable, have lower debt-levels and less labor intensive production processes than state-owned enterprises. These results are controlled for company size, location, industry and business-cycle effects. The authors find, however, that these gains are not directly associated with privatization. Rather increases in profitability are more likely to occur prior to privatization. Explanations for their findings are for instance good economic perspectives of future privatization, that improve firm performance prior to any privatization measures, or governments, which tend to privatize companies, which have recently become profitable. Another reason for ex-ante privatization effects is the manager's incentive to prove his ability in anticipation of privatization, in order to be held accountable by the new owners (Pohl et al., 1997). La Porta, Lopez-de-Silanes and Shleifer (2002) analyze data from 92 countries and conclude that state ownership above a certain level negatively affects the development of financial systems, which in turn has a negative impact on a company's profitability.

In a study of 79 firms in 21 developing countries Boubakri and Cosset (1998) document a significantly positive impact of privatization on output efficiency, profitability, capital spending, dividend payments and (surprisingly) employment levels, whereas leverage is reduced considerably after privatization. In an analysis comprising both, developing and developed economies, D'Souza and Megginson (1999) receive similar results except for a significant decline in employment after privatization. La Porta and Lopez-de-Silanes (1999) examine the post-privatization performance of 218 Mexican firms over the period 1983-1991. Again, they find a significant increase in firm profitability resulting primarily from reductions in labor spending.

Pohl et al. (1997) measure financial and operating data for more than 6,300 industrial companies from 1992 to 1995 in seven Central and Eastern European countries, and find that within the first four years after privatization firms will increase productivity 3-5 times more than similar state-owned companies.

Nonetheless, one has to be cautious in interpreting the results of studies on privatization and corporate performance. Megginson and Netter (2001) argue that scholars are facing the possibility of sample selection bias, since many governments privatize the more profitable companies in order to generate acceptance for their privatization programs. Apart from that, cross-national research has to deal with a lack of data availability, mainly in less developed countries. This leads to an unequally distributed sample among the observed countries (developed countries are therefore given too much weight). Finally, the authors state that fundamental reasons drive the matter of fact, why certain companies are state-owned (for instance state interventions to bail out companies as a result of market failure). These factors have significant effects on studies dealing with the difference in corporate performance between public and private or privatized companies, and may lead to biases in the results of empirical papers in this field.

Privatization drives a wedge between politics and management, or in other words, depoliticises companies. This process involves a lot of effort from the government, since the state's role has to be redefined according to its financing, ownership and regulatory role. Whereas ownership and financing responsibilities must be passed on to the new proprietors, regulatory roles must be strengthened in order to ensure a smooth and efficient privatization (Hinds and Pohl, 1991).

2.4 Privatization in Transition Economies in Central and Eastern Europe

This chapter highlights the most important elements of the privatization process in Central and Eastern Europe (CEE), by explaining the development of privatization in these countries, and discussing the challenges governments were facing, particularly during the first decade of transition.

The fall of the Berlin Wall in 1989 has raised many hopes for a considerable increase in the standard of living in CEE. A key reform towards an efficient market economy was the privatization of many hundreds of thousands state-owned companies. Due to the huge number of firms to be privatized and the relatively short time horizon of governments, mass or voucher privatization had become a popular method of privatization in CEE. In 1991 the Czech Republic was the first country in CEE to conduct mass privatization by distributing coupons among the population. The citizens could either use their coupons to bid for shares to invest directly in any of the companies, or invest in a diversified portfolio of privatized companies by turning over their coupons to an investment fund.

Poland, Bulgaria and Romania followed with similar mass privatization programs, however, not as massive and rapid as those of the Czech Republic. Other countries in CEE, such as Hungary or Slovenia relied primarily on step-by-step privatization rather than mass privatization. Critics of mass privatization had argued that this type of privatization would lead to inefficient and dispersed ownership structures with no positive impact on a company's governance. However, the structure of ownership after voucher privatization had become much more concentrated than anticipated, since large investment funds gained considerable stakes in companies by providing diversified portfolios to the public. Though, ownership concentration through large investment funds did not result in efficient control in corporations, since minority shareholder protection was relatively weak. As a result, expropriation by corporate or fund managers was likely to occur.

Due to the lack of foreign investments (the reasons are mentioned below), many firms were sold to local domestic investors. Thus, privatization to managers and employees was a very common method to transfer ownership into private hands. In many countries in CEE, particularly in Hungary, Poland and Ex-Yugoslavia, unions were very strong and consequently the notion of worker ownership had already been very popular, even before

the first large-scale privatizations took place. Non-transferable worker ownership initially posed a large obstacle for full-scale privatization and supported insider privatization. As a consequence, governments imposed laws against self-management to enforce conversion of all assets within a corporation in the case of privatization.

To combine a rapid privatization with longer-term involvement in restructuring processes privatization agencies were set up as intermediary parties between the state and individual investors. Their responsibilities varied greatly across countries, from acting in a purely advisory capacity to monitoring a company's activities to direct involvement in a firm's management as a holding company. Though, the overall objective of these institutions was the same: Preparing companies for privatization through initial public offerings, auctions, direct sales or management buyouts (Brada, 1996). Implementing privatization agencies as an intermediary party resulted in the advantage, that the completion of the whole process was postponed until a reasonably fair valuation of the privatized companies was feasible (Hinds and Pohl, 1991). By this time a sound valuation of firms was difficult because capital markets barely existed. By the end of the transition process privatization agencies were self-terminating, leaving ownership directly with the new shareholders.

Finally, housing and agricultural land was partly privatized through restitution of property, formerly expropriated by the state during communism. After World War II large estates were broken up and distributed among the public. Owners were forced to join collective farms in order to receive nominal ownership of their land. Though, they virtually had no control over their land and could not sell or lease it. This created various obstacles during privatization 40 years later, since land records were rather incomplete and property was defined vaguely due to the principle of collective farming (Brada, 1996). Despite these problems, some countries, such as Bulgaria, utilized this method to return much of the agricultural land to former owners or their heirs. Courts and government agencies created restitution funds, which were responsible for compensating society for wrong-doing by individuals, corporations or the state.

Although all countries in CEE aimed to create efficient market economies, economic performance has varied greatly across the transition countries. Central European countries, such as the Czech Republic, Hungary, Poland, Slovakia or Slovenia generally performed better than the Baltic states of Estonia, Latvia and Lithuania, which in turn reported a more

efficient transition process than the Balkan States of Bulgaria and Romania (Svejnar, 2002). The privatization strategies, these countries have implemented, have differed greatly regarding the speed of the privatization program, the privatization method or the openness towards foreign investors. Though, it can not be generalized which privatization strategy is most suitable for economic success in CEE, since other country-specific factors, such as politics, the country's budget deficit, the degree of insider control or the size of the capital market influence the overall outcome of the transition process (Schaft, Schläger and Schnitzer, 2003).

2.4.1 Challenges during Privatization in Transition Economies in Central and Eastern Europe

Privatization programs in Central and Eastern Europe (CEE) can not be compared to those I have mentioned previously in the United Kingdom and in Western Europe. Although these privatization waves were significant and massive, they happened under completely different circumstances than those in the so called transition economies in CEE. In the latter states governments had to manage a sudden transition from a highly distorted command economy with many heavily indebted companies to a market economy within a considerably shorter period of time than their Western European counterparts. Furthermore, state-owned companies in developed countries, such as France, Germany, or other Western European countries had already been facing a rather well-established market environment with substantial competition from the private sector (Hinds and Pohl, 1991).

By contrast, economies in CEE were dominated entirely by state enterprises. Whereas the public sector accounted for a share of 10 percent to 20 percent of the countries' GDP in the period between 1982 and 1986 in Western European countries, this number had been between 65 percent (Hungary) and 91 percent (Czechoslovakia) respectively in CEE (Milanovic, 1991).

Having these figures in mind, governments in CEE were pressurized by the European Union to introduce large-scale privatization programs in order to create *normal* market economies. Being in the shadow of the strong European alliance many countries were striving for the goal to join the European Union (EU) in the foreseeable future. In 1993 the European Council announced officially that privatization is one of the key criteria, CEE

countries had to fulfil, regarding an entry into the EU. Hence, companies located in CEE had to be able to respond to increasing competition from Western Europe and manage to survive without future support from the state. A possible accession to the European Union had been regarded as a strong incentive for investors to place funds in CEE, and created a unique opportunity for governments to develop national capital markets.

Although many industries are still controlled by large state-owned companies, there has been a significant transfer of property rights into private hands over the last two decades, resulting in a substantial increase of the private sector (see Figure 3 for 2001).

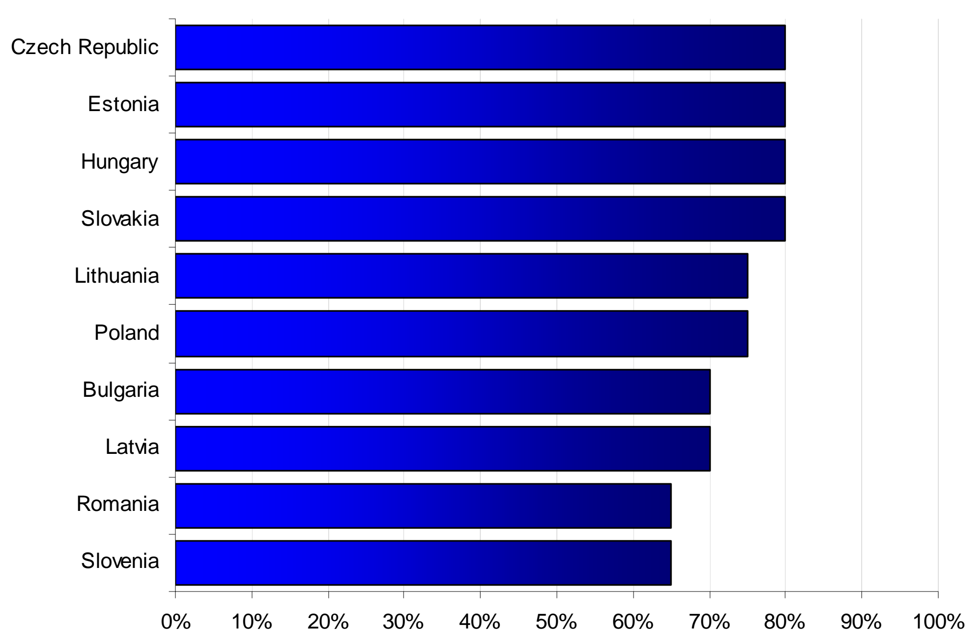

Figure 3: Private Sector Share of GDP in CEE Countries in 2001
Source: European Bank for Restructuring and Development (EBRD)

Despite attractive fundamentals in CEE, even after large-scale privatization programs these economies still lag substantially behind in terms of productivity in comparison to other countries, particularly the developed G7-nations (I deliberately exclude the new G8-nation Russia due to similar problems in the very country).

Laban and Wolf (1993) give reason for this competitive disadvantage of CEE economies. They state that a sudden transition from a planned to a market economy entails a significant reduction in the standard of living in the initial phase of transition. These declines are due to ex ante unknown, and to some extend unexpected costs, associated with the setting

up of an efficient market economy, such as the implementation of social-security systems, institutional reforms or a reorientation of the transportation and communication infrastructure towards the new external environment. In addition, production output is reduced considerably due to temporary closings of rundown production sites, which are subject to restructuring in the early stages of the transition process. Pohl et al (1997) state that many firms were forced to enter Western European markets as demand from former socialist countries had declined considerably and their home markets were enormously embattled by international competitors. Since these markets had significantly higher quality standards, companies had to deal with an enormous contraction of their profit margins. Apart from that, economies in Western Europe did unexpectedly well during the 1990s, which raised the bar for economic success for countries in CEE. As a consequence, many firms became unprofitable and the countries were sliding into a severe economic recession with double-digit unemployment rates.

Among investors and the country's population these facts had created uncertainty and doubt about the overall success of the privatization program, leading to larger than expected obstacles for privatization. People had expected that the fall of the communism would immediately boost economic growth and make their countries more competitive to the Western European market. Unfortunately, these people recognized soon, that an efficient transition would not happen overnight. The low levels of foreign participation in privatization within the first years of transition particularly reflect investors' uncertainty. Besides, foreign corporations did not dare to carry out painful restructuring measures, which could have detrimental effects on a company's corporate identity or image. Therefore, many firms stayed away from CEE markets. According to the OECD foreign sources of privatization revenues by the end of 1995 had varied between 5 percent in the Czech Republic and 24 percent in Bulgaria, except for Hungary, which was able to disclose a majority ownership by foreign investors of 58 percent.

The transition to markets had initially been regarded as a risky investment project, with a trade-off between sacrificing current productivity and higher expected future productivity. Figure 4 illustrates the initial declines in economic output and per capita GDP at the beginning of the transition process in countries in CEE.

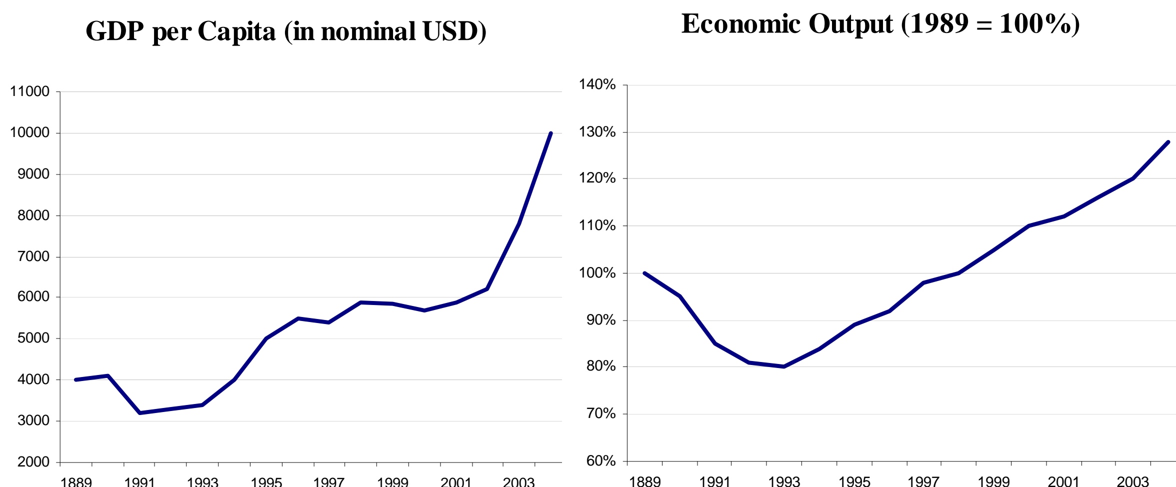

Figure 4: Development of Economic Output and GDP per Capita in CEE countries
Source: EBRD (2004)

Laban and Wolf (1993) argue that the front-end costs of transition were underestimated at the beginning of privatization and consequently raised the voice among the population towards governments to abandon a pro-capitalist regime. The resulting political pressure against investment-friendly policies, which entails a decline in the front-end welfare of citizens, forced governments to reverse some of the pro-privatization policies, and adopt only partial market oriented reforms with weak legal systems. Thus, policy-sustainability and corruption, due to weak legal systems, were other factors that contributed to increased uncertainty among investors, and in unexpected initial difficulties in the transition process.

Another reason for lower productivity in CEE, even after implementing a free market economy, was the initially weak banking system in the very countries. Pohl et al (1997) report poor bank lending practices in favor of ailing state firms and a resulting decline in productivity and profitability with regard to additional bank lending. The authors conclude that in the early phase of transition, companies were likely to use bank loans to finance losses instead of realizing restructuring. As a consequence, in the early 1990s economies were suffering from exploding inflation rates between 100 and 2,000 percent due to extensive and poor bank lending practices. Elevated inflation rates decelerated the transition towards markets, since macro-economies can not function in an environment without reasonable price stability (Hinds and Pohl, 1991). Due to huge depreciations of banks on credit defaults many financial institutions had to be bailed out by governments. Though, by 1995 in many countries in CEE the tide has turned, since a large consolidation in the bank-

ing sector resulted in a banking system dominated by western banks with restructuring-supportive bank loans, better lending practices and market-based banking systems.

Hence, even in the presence of favorable fundamentals privatization in CEE had not been as efficient as in comparable economies, though, it contributed significantly to the overall stability and productivity of the region's economy.

Still, it is the overall objective of governments in CEE to create a flexible and efficient market economy by ensuring macroeconomic stability, enforcing price and market reforms, a smooth transition of property rights and a complete redefinition of the role of the state in controlling and monitoring firms operating in the very country. Apart from this, a market-oriented legal framework provides the basis for any step towards an efficient transition process.

3 Corporate Governance in Transition Countries in Central and Eastern Europe

A country's corporate governance system is a set of laws and regulations, institutions and practices that determine how and in whose interest a company will be run (Megginson and Netter, 2001).

Due to the historical command economy corporate governance models in transition economies in CEE are considerably younger than the well-settled Western European or U.S. ones. Thus, they are more open to reform and more flexible in adopting successful features of other corporate governance systems. Since the transition into a market economy in those countries had changed property rights and other corporate governance issues dramatically, the countries' systems have been highly influenced by the overall transition process at the beginning of the 1990s. Whereas Shleifer and Vishny (1997) state that corporate governance was practically nonexistent before privatization, Pistor, Raiser and Gelfer (1999) provide evidence, that many transition economies nowadays show higher levels of investor rights protection than many highly developed market economies. The latter authors apply the investor rights indices developed by La Porta et al. (1998) in *Law and Finance* to the transition economies in CEE. They point out that regarding both, shareholder rights and creditor rights, transition economies are considerably above the world average comprising 49 common-law and civil-law countries. However, the authors remark that, despite comprehensive laws on the books, their enforcement is rather weak, as a result of poor regulatory institutions. Thus, transition economies in CEE provide favorable conditions for corruption or bribery.

Furthermore, the lack of external finance to replace state funding, managerial entrenchment of incumbent managers and the remaining influence of the state as a controlling body provide significant problems for the implementation of an effective corporate governance system (Pistor, Raiser and Gelfer, 1999).

The next chapters highlight the privatization process of the countries Bulgaria, Romania and Slovenia, its effects on corporate governance due to transition, and the problems and difficulties, the governments in the very countries had to deal with, in order to implement a free market economy.

3.1 Privatization and Corporate Governance in Bulgaria

3.1.1 Corporate Governance Issues during Bulgarian Privatization

Bulgaria, one of the largest states in CEE, introduced its privatization program relatively late in 1996. Since economic and political situations were far from being stable, privatization has slowly gained momentum. By the end of 1994 Bulgaria ranked last across all countries in CEE regarding the share of the private sector in GDP (Podkaminer, 1995). One could assume that the deferred steps towards a market economy would have provided several advantages to regulatory bodies in Bulgaria, since the Bulgarians were in the position to observe problems other governments were facing through the implementation of privatization programs. Thus, they would have been able to design a regulatory framework regarding privatization and concurrent changes in corporate governance to overcome certain difficulties that had not been foreseen earlier (Miller, 2006).

Though, corporate governance mechanisms in Bulgaria were formed with certain time lag (Keremidchiev, 2004). Initially, privatization was only poorly regulated by the "Law for Transformation and Privatization of the State Owned and Municipal Owned Enterprises Act", which was passed by the National Assembly in April 1992, and formed the legal basis for all privatization methods implemented in Bulgaria. Due to the fact that privatization funds in Bulgaria were, in contrast to Poland or Romania, founded by private legal entities and not by the government, the founders of those funds could easily seize their funds and reallocate the public wealth in their possession without the presence of a comprehensive regulatory system. Miller (2006) reports that among the 81 privatization funds, that were founded, originally only 30 were still listed on the exchange and about 15 funds were actively traded. This resulted in an extremely unequally allocated social structure. The government reacted by introducing bans, sanctions, strict regimes and regulations, however, it was too late. The delay of regulatory mechanisms forming resulted in a very prolonged process towards an efficient market economy (Keremidchiev, 2004).

Another weak point of Bulgaria's corporate governance system was the asynchronous regulations for private and public enterprises. Private companies took advantage of the unlimited issues of loans by banks and favorable tax rates, whereas state enterprises were under strict political, formal and managerial control. In a study comprising 2,515 Bulgarian

privatized companies, Miller (2006) gives evidence for the preferential conditions of private enterprises by reporting no bankruptcies among those companies between 1996 and 2001, although the firms experienced a severe financial crisis in 1996 and 1997. Miller agrees with Keremidchiev that this was mainly due to weak bankruptcy laws and soft budget constraints by this time.

The government had dealt severely with public enterprises, limiting their opportunities significantly. Without authorization from the state many transactions could not be conducted. Managers' decisions were administratively slowed down since the government's administrative capacity was very weak. Although regulations regarding corporate governance, such as a mandatory convention of an annual general assembly or the approval of balance sheets and financial statements, had been enacted, the lack of qualified people to monitor public companies had been destructive to the enterprises' development. Keremidchiev states that in 1997 about 20 officials in the Ministry of Trade and Foreign Economic Cooperation were responsible for 426 state enterprises. Therefore, public enterprises developed less rapidly than their private counterparts, and thus, were regarded as unattractive for potential investors, which resulted in the fact, that even nowadays the Bulgarian government seeks buyers for some of its run-down companies.

3.1.2 The Bulgarian Privatization Process

Initially Bulgaria adopted a strongly decentralized approach to privatization. Cash privatization, where the state offers public assets for sale to local or foreign investors and management-employee buyouts (MEBOs) were implemented at the beginning of the transition process. A considerable part of these transactions were for small enterprises with fixed assets of less than BGL 70 million (about USD 48,000) (see figure 5). These privatization methods provided only limited success, at least initially (Miller, 2006).

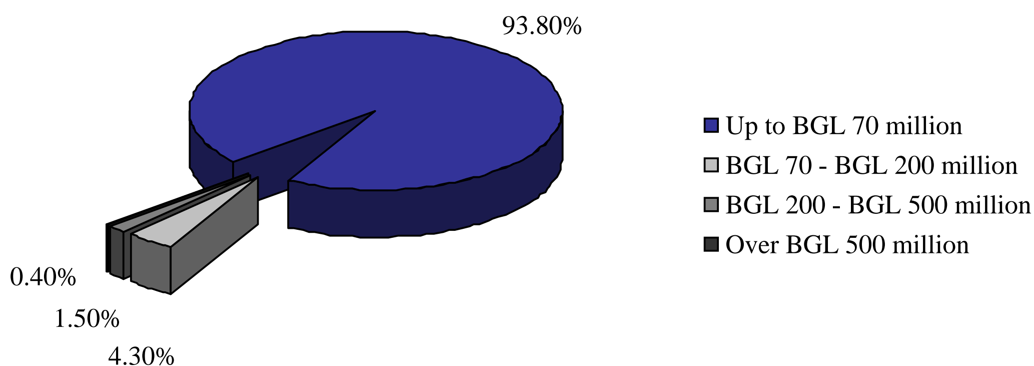

Figure 5: Distribution of Privatization Deals by the Value of Fixed Assets (until 1996)
Source: Miller (2006)

MEBOs had enjoyed several preferences, such as an initial payment of only 10 percent of the agreed price. The outstanding amount had to be paid within ten years, increased with a favorable interest rate half of the average bank rate of interest. But due to weak regulations concerning MEBOs and the decentralized approach to privatization, "spontaneous privatization" created opportunities for managers and foreign partners to expropriate employees to fully enjoy the advantages of MEBOs. Managers had made themselves irreplaceable and did not see advantages of sharing control with other employees (Kostourkov, 2002). Megginson and Netter (2001) state that most studies on privatization and firm performance in CEE document stronger performance impacts of privatization if the management is replaced than in the case of managers who remain with significant control rights after privatization. Hence, managerial entrenchment in Bulgaria prohibited any major changes in the management board, and thus, did not result in positive developments in corporate performance. Furthermore, companies privatized through MEBOs had difficulties in raising additional capital and their management had a lack of experience in free markets. Another explanation for the worse performance of these companies is that there had not been any investment interest by other parties, due to the company's unattractive financial and economic condition, resulting in a MEBO to avoid bankruptcy and liquidation. Between 1993 and 2001 about 1,400 MEBO deals had been completed. Only a minimal percentage turned out to be successful.

Thus, due to the country's size, the large share of state ownership and the very limited financial resources citizens had to buy state companies, mass privatization, as introduced by

the Czech Republic in 1992, and privatization through restitution had been regarded as the most efficient opportunities to transfer assets to the population at large.

In 1996 the Bulgarian government introduced the first round of voucher privatization, co-ordinated by the Centre of Mass Privatization and prepared by the Privatization Agency. During the first round large enterprises were only partially privatized with a maximum stake of 25 percent. Regarding small and medium companies the state offered up to 90 percent of a company's stake, holding back the rest of the shares for claims through restitution. Foreign investors could participate in privatization through cash offers or the foundation of privatization funds, but not through the purchase of investment vouchers. Among the 81 privatization funds in Bulgaria, 13 were founded by foreign entities (Todeva and Kuntchev, 2000).

Employees, managers and former employees of companies to be privatized were able to acquire up to 10 percent of the shares offered for sale free of charge. Investors could choose between exchanging their vouchers for shares in a diversified portfolio offered by privatization funds, or bid directly for a company's shares at the auction. Altogether, 1,040 companies from all sectors of the economy, which is equal to one-fourth of Bulgaria's state-owned enterprises, were (partially) privatized during the first mass privatization round.

Due to the privatization of companies across almost all industrial sectors, 80 percent of Bulgaria's citizens recognized the advantages of portfolio diversification by transferring their vouchers to the 81 privatization funds.

In 1999 the government implemented a second round of voucher privatization after certain amendments to the Privatization Act had been made. Public auctions as a combination of cash and voucher privatization were introduced, which provided the opportunity for active privatization of foreign investors in public auctions.

After the second round of mass privatization had been completed, the Bulgarian government placed great importance to the privatization of the state's largest enterprises. Therefore, the Privatization and Post-Privatization Control Act (PPCA) was adopted in 2002, under which privatization became more centralized under the special guidance of the Pri-

vatization Agency. Direct negotiations with potential buyers were abolished and decentralized approaches avoided, since the Bulgarian economy had experienced many cases of managerial fraud in the past. Rather public tenders and public auctions had become the main methods for privatization of large enterprises. The process was fully open to foreign investors, treating them equally to local buyers. Table 1 illustrates details about privatization deals with foreign investors concluded by the Privatization Agency. The most important investors are from Austria, Belgium, the Czech Republic, Germany, Greece, Russia and the United States. Conspicuous is the year 2005, where the Privatization Agency has not realized any privatization deal with foreign investors, reflecting the difficulties Bulgaria is facing to catch up with other more developed transition countries such as the Czech Republic or Slovenia.

Year	Number of Transactions	Revenues (thousand USD)	Largest Deal	Agreed Price (thousand USD)	Country of Buyer
1993	2	22,052	Tzarevichni Producti PLC	20,000	Belgium
1994	8	73,345	Hotel Vitosha	36,230	Germany
1995	4	12,756	Burgarska Pivo PLC	5,020	Belgium
1996	13	48,639	Sheraton Sofia Balkan	22,300	Korea
1997	20	354,283	Sodi JSCo	160,000	Belgium
1998	14	76,360	Drujba JSCo	20,000	Greece
1999	24	206,023	Neftoxim JSCo	101,000	Syria
2000	7	25,667	VEC Pirin and VEC Spanchevo	15,000	France
2001	1	5,466	Transimpeks SP JSCo	5,466	Syria
2002	10	49,545	VEC Popina Laka, VEC Lilianovo and VEC Sandanska	33,057	Czech Republic
2003	9	1,062	Vidima AD	210	United States
2004	9	1,183,220	BTC EAD	292,652	Austria
2005	No deals	n.V.	n.V.	n.V.	n.V.
2006	1	259,400	TPP Varna EAD	259,400	Czech Republic
2007	3	169,336	DHC Russe EAD	116,182	Slovenia

Table 1: Bulgarian Privatization Deals with Foreign Investors
Source: Privatization Agency (2008)

Although the largest enterprises were privatized by means of mass privatizations or public offerings to domestic or foreign buyers, the majority of the companies had passed into private hands through restitution. Within the first years of transition about 22,000 enterprises, which is equal to 90 percent of the privatized entities, had been privatized through this method. These were mainly small companies in the trade and services sector, such as shops, restaurants and hotels (Prohaska, 1996). Restoration of ownership rights helped to establish a functioning real estate market and promoted entrepreneurship among Bulgaria's citizens.

Summing up the Bulgarian privatization process, the government initially privatized small and medium sized companies through restitution, cash privatization and MEBOs. After dissatisfying results and many cases of managerial fraud, due to a decentralized privatization process, two large voucher privatization phases were introduced in 1996 and 1999 respectively. Having transferred property for most of the small and medium sized companies into private hands, a new law was adopted in 2002 to sell the largest companies from the key sectors of the economy in a more centralized approach by means of public tenders or public auctions. Thus, although cash privatization initially achieved disappointing results, it had been regarded as the most efficient method to privatize the country's "heavyweights".

By July 2008, around 92 percent of the assets which are subject to privatization have been transferred to private entities (Bulgarian Privatization Agency, 2008). This indicates that the privatization process draws to the close. The mass privatization program promoted the development of corporate governance in Bulgaria, though, not as significant as in other transition economies, and persuaded over three million Bulgarian citizens to participate actively in the domestic stock market. Figure 6 illustrates the development of the market capitalization of the Bulgarian Stock Exchange (BSE) and the performance of the SOFIX, Bulgaria's leading share index since its inception in 2000.

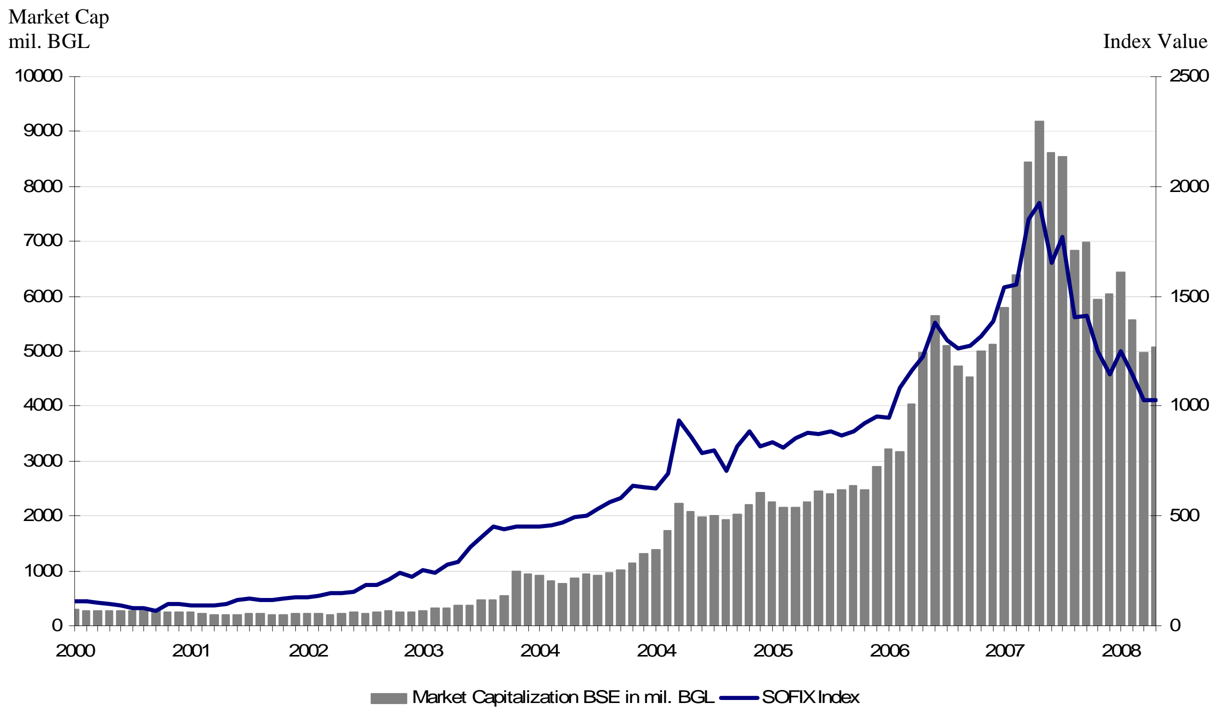

Figure 6: Monthly Market Capitalization of the Bulgarian Stock Exchange (BSE) and Performance of the SOFIX, Bulgaria's leading share index
Source: Bulgarian Stock Exchange, Bloomberg

However, the country still has to deal with a considerable rate of corruption, most widespread in the judicial system, the political parties and the area of health care. According to the corruption perception index, calculated by Transparency International, the country has not made any progress in impeding corruption since 2001. For 2007 the index for Bulgaria is 4.1 points from a 10 point scale, which represents the second worst score among the members of the EU. Together with double-digit unemployment and inflation rates, the second highest poverty rate in the EU, and political instability, Bulgaria, as one of the trouble makers within the EU, still has enormous difficulties in attracting investors, who prefer to forgo taking excessive risk. Though, the country has experienced rapid economic growth in recent years and benefits from the current emerging market boom. The accession to the EU in 2007 can be regarded as an economic milestone at the end of the initially unexpected slow-going process towards free international markets.

3.2 Privatization and Corporate Governance in Romania

3.2.1 Corporate Governance Issues during Romanian Privatization

Romania, with a population of 22.3 million even larger than its Balkan neighbour Bulgaria, was facing similar difficulties in implementing an efficient market economy, such as a long recession with worsened living standards, hyperinflation rates, extreme poverty, a high level of corruption and an unstable political situation. Besides, the country experienced a strong political and public rejection towards the transition process, which resulted in a widening gap on a political level between the former communists and the democratic opposition. For this reason the government hesitated to fully enforce economic reforms that would have entailed temporary additional costs and an increase in unemployment. Without public support from the population the overall process to implement free markets was a very tough and slow one. Due to many changes of governments and permanent amendments to privatization acts, international investors had been very cautious in investing in Romanian enterprises.

Such conflicts of interests and many loopholes in the legislation provided a favorable condition for the emergence of corruption. According to the Transparency International 2007 Corruption Perception Index, Romania, with a score of 3.7 on the 10 point scale, had been outpaced by Bulgaria during the last years and currently ranks last among the members of the EU.

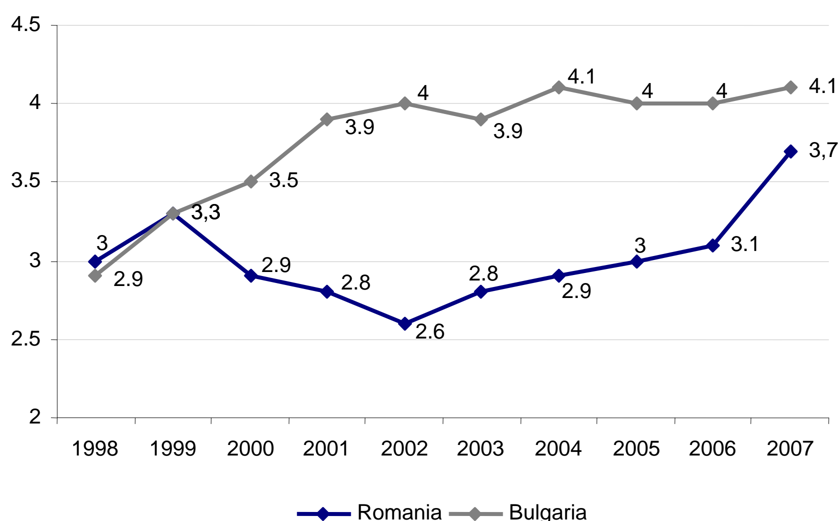

Figure 7: Development of Corruption Perception Index
Source: Transparency International

The Romanian society regards customs officials, the police and parliamentarians as the most corruptive occupational groups. In addition, a particularly well developed shadow economy and quasi-monopolies in many key segments of the Romanian economy hindered the transition process considerably (Bertelsmann Transformation Index Report, 2003). Early entrants into the Romanian economy had enjoyed preferential treatment and put barriers in the way towards a complete market liberalization and full transparency, since this would have diminished their competitive advantages.

Similar to Bulgaria, Romania's relatively weak public governance with its limited administrative capacity had been a constraint to implement economic reforms smoothly. The government had reacted through the offering of more competitive wages and additional incentives to civil servants to attract and retain the most qualified staff in order to carry out the administrative process more efficiently.

Furthermore, certain improvements have been made regarding Romania's formerly weak financial system. On the verge of a severe banking crisis the government started a comprehensive banking system reform. After a successful restructuring process of the practically insolvent state-owned banks and the creation of a two-tier banking system, the Romanian government managed to overcome even bigger banking troubles (Badulescu and Badulescu, 2008).

Striving for EU membership, Romania recognized the importance of an effective corporate governance system that complies with European standards. The introduction of the Corporate Governance Code in June 2000, based on the principle "comply or explain", and a gradual implementation of the international accounting standards (IAS) give evidence that, although the Romanian corporate governance system is still rather weak, it is "reasonably good" compared to other transition countries in CEE (Sigma Bleyzer, 2003). According to the Doing Business 2008 report Romania outperforms most of the other transition countries and is significantly above the OECD average regarding transparency of transactions, liability for self-dealing and investor protection. The only criterion where Romania has a lot of catching up to do is the shareholders' ability to sue officers and directors for misconduct (see Table 2). This can be explained primarily by the large impact of corruption on the country's judicature.

Indicator	Romania	CEE	OECD
Disclosure Index	9.00	4.90	6.40
Director Liability Index	5.00	3.80	5.10
Shareholder Suits Index	4.00	6.30	6.50
Investor Protection Index	6.00	5.00	6.00

Table 2: Corporate Governance Indices: Romania vs. CEE and OECD
Source: Badulescu A. and Badulescu D. (2008)

Despite the fact, that many transition criteria had not been met yet, the European Union decided to start accession negotiations with Romania in 1999, due to the country's stabilizing role during the Balkan conflict. Since then the Romanian economy has recovered astonishingly. In 2007 GDP growth in real terms was recorded at 7.7 percent, which is one of the highest rates in Europe. The unemployment rate dropped to 3.9 percent in September 2007, which is comparatively low to Western European countries, such as Spain, Germany or France and significantly lower than Romania's Central and Eastern European neighbours. This indicates that Romania is on the right path to achieve macroeconomic stability, despite many difficulties, the country has been facing during the first decade of transition.

3.2.2 The Romanian Privatization Process

The Romanian privatization process has been quite heterogeneous, comprising all major privatization methods, such as management-employee buyouts (MEBOs), mass privatization or sales to outside investors. This resulted in a diversity of privatization outcomes, including employee, state, dispersed and concentrated outside ownership (Earle and Telegdy, 2002).

Similar to Bulgaria, the first period of transition in Romania was a very difficult and slow process (the reasons were mentioned in the previous chapter). Though, the Romanian government carried out the first privatizations, mainly small and medium-sized enterprises, relatively early in 1990. Within the first five years of transition MEBOs had been the dominating privatization method. Thus, Romania is among the countries with the largest percentage of insider dominated firms, with employee ownership many times close to 100 percent (Telegdy, 2002). Insider owners enjoyed preferential treatment, such as credits

granted by the State Ownership Fund (SOF) with highly negative real interest rates or the suspension of the profit tax until credits are fully repaid to the SOF. These favorable purchasing conditions were included in the whole privatization process, resulting in a significant impact of MEBOs during all of the periods of privatization.

Mass privatization in the form of voucher systems was implemented in two phases 1992 and 1995. The overall privatization process was coordinated by three institutions: the National Agency for Privatization (NAP), which was responsible for the monitoring of the privatization process, the SOF, which ensured the transfer of state property to private ownership and the five Private Ownership Funds (POFs). Whereas the SOF was founded to terminate its operations after the fund's portfolio had been privatized, the POFs were transformed into closed end investment funds and listed on the Bucharest Stock Exchange (BVB) after the second round of mass privatization in 1996. The latter issued certificates representing participations in these funds which in turn served as stakes in various public companies. The Romanian population could choose between exchanging its coupons for shares in companies, selling them against cash or exchanging them for certificates of the five POFs.

Before the first phase of mass privatization took place the Romanian government adopted the Law on Privatization of Enterprises in the second half of 1992. According to its content, the state's companies were categorized in 800 strategic companies, called "*Regii Autonome*", which had been excluded from the general privatization process, and the remaining 6,300 non-strategic enterprises, which had been part of the first round of mass privatization. The strategic companies included Romania's key sectors, such as defence, energy supply, transportation and other primary industries (Stelzer-O'Neill, 2000). These companies had been very capital-intensive, accounting for about 47 percent of the total book value of public enterprises in Romania by 1997 (Romanian Development Agency, 1997).

During the first round of mass privatization in 1992, coupons amounting to 30 percent of the capital share of the 6,300 non-strategic enterprises were distributed among the population. The remaining 70 percent of the capital share was managed by the SOF. Despite concentrated efforts to transfer ownership into private hands, only 20 percent of all public companies had been privatized until 1995. Therefore, the government implemented another

attempt of mass privatization in the respective year by reducing the state's share in non-strategic enterprises to 40 percent. In contrast to the first round of privatization no cash sales of coupons were permitted in order to accelerate the mass privatization process, since only direct investments in companies or POFs had been possible. Altogether, 91 percent of the Romanian population participated in the mass privatization process, whereas only 15 percent remained in the hands of the five POFs. These results were totally contrary to the Bulgarian mass privatization process where privatization funds appealed to the majority of the population.

Stelzer-O'Neill (2000) and Earle and Telegdy (2002) give two plausible explanations for the unpopularity of Romanian POFs. On the one hand, the state retained significant control rights within a considerable amount of privatized companies, even after two phases of mass privatization. Earle and Telegdy (2002) report a positive stake of the SOF in three-quarters of the privatized companies with an average stake of 46.9 percent within those enterprises. On the other hand, the actual role of the POFs within the privatized companies had been defined very loosely. Although POFs held minority holdings of more than 25 percent in many corporations, an active collaboration with the companies' managements was technically not feasible for the funds, which were responsible for portfolios of more than 1,500 companies (Stelzer-O'Neill, 2000). Thus, the POFs had got their hands full with handling the process of registering coupons and exchanging them for the funds' certificates. Although dividend payments conducted by the companies within the portfolios were announced to be passed on to investors, the administrative costs exceeded any dividend yield. The following table compares the responsibility of Romanian funds to their Polish counterparts and points out the enormous administrative efforts Rumanian POFs had to undertake in order to ensure a smooth transition process.

	Poland	**Romania**
Start of Mass Privatization Process	1994	1992
Number of Privatization Funds	15	5
Number of Companies to be privatized during Mass Privatization	512	12,000
Avg. Number of Companies in a Fund's Portfolio	34	2,400

Table 3: Comparison of Romania's and Poland's Privatization Funds' Responsibilities
Source: Stelzer-O'Neill (2000)

Due to the fact that the Romanian privatization funds were primarily employed with administrative problems and could not actively participate in any restructuring process, they virtually had no significant effect on the privatization process apart from transferring public ownership to private entities (Stelzer-O'Neill, 2000). The low popularity of the POFs resulted in an even more dispersed ownership structure than expected, since most of the Romanians preferred to invest directly in enterprises. Besides, the state retained between 40 and 51 percent of the shares in every company included in the voucher privatization process for latter direct sales. As a consequence of the partial privatization and unpopular privatization funds, the ownership structure of companies, involved in the Romanian voucher privatization process, was extremely dispersed with the state as the only blockholder with a controlling stake (Telegdy, 2002).

Within the first six to seven years of privatization the government had neglected to privatize the country's largest state enterprises, partially because of their weak financial situation and the threat of an upsurge in unemployment. Only strict requirements imposed by the International Monetary Fund (IMF) and the perspectives to join the EU in the foreseeable future imposed pressure on the privatization process of the 800 strategic companies.

After the transformation of the POFs in closed end investment funds and the foundation of the RASDAQ, an exchange for small and medium sized start-up enterprises, the government introduced a large scale privatization process of the country's strategic companies, mainly in the form of privatization sales, starting in 1997. The government decided to sell its key enterprises by means of privatization sales, such as auctions, direct negotiations and public offerings, because by this time the Romanian mass privatization process had resulted in an even more dispersed ownership structure than general voucher privatizations in other countries in CEE (Telegdy, 2002). Stelzer-O'Neill (2000) emphasizes this statement by mentioning that by the year of 2000 Romania had the largest stock book in the world, though, trade volume was rather low. Therefore, between 1997 and 2001 a considerable number of enterprises became owned by outsiders, due to accelerated case-by-case sales of shares in those companies. Foreign investors started to acquire stakes in enterprises of the financial, energy, industrial or telecommunications sector (e.g. Banca Romana by Societe Generale in 1998 or Automobile Dacia by Renault in 1999). The development of foreign investments in Romanian companies is illustrated below.

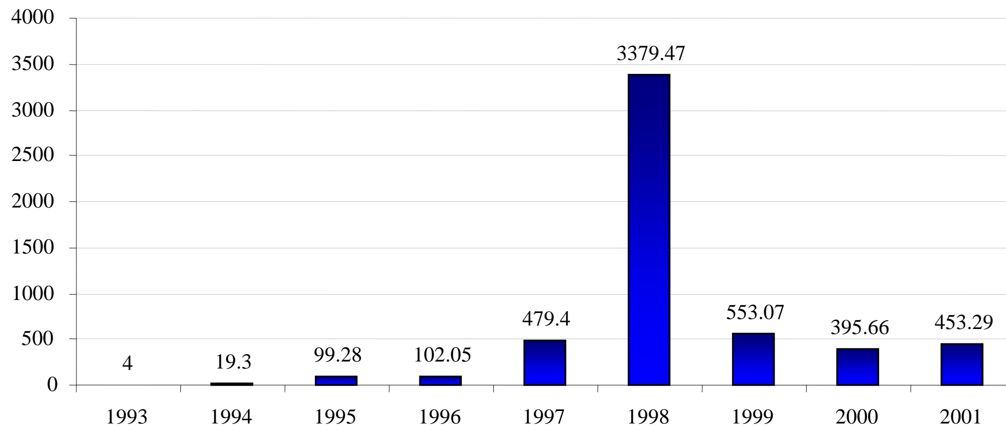

Figure 8: Foreign Investment in Privatized Companies, USD million
Source: Sigma Bleyzer (2003)

Reasons for the increased interest of foreign investors were the efficient collaboration of the Romanian government with the IMF and the World Bank, the good progress in the establishment of a developed stock exchange and country's efforts to join the EU as soon as possible. Apart from this, the introduction of a Corporate Governance Code had created a positive response from the public, despite evident difficulties in the enforcement of an efficient corporate governance system.

Indeed, Earle and Telegdy (2002) provide evidence that privatization in Romania has been surprisingly successful for all firms that have been privatized, regardless of the privatization method. Their estimated regression coefficients point to positive and substantial effects on labor productivity growth, with outside blockholders being the most effective owners and dispersed outside owners (participants in mass privatization) and insiders (participants in MEBOs) being the least effective, though, statistically significantly positive relative to state ownership.

Despite a good economic progress in recent years, a lot of work has to be done to catch up with most of the other EU-partners. Still, about 20 percent of Romania's GDP accrue from the public sector. Though, the government acts very considered in privatizing the remaining enterprises. Since millennium the market capitalization of the Bucharest Stock Exchange has centupled and the standard of living of Romania's population, as measured by per capita GDP on the basis of purchasing power parity (PPP) has tripled. Though, Romania currently ranks 65th according to per capita GDP as measured by PPP.

3.3 Privatization and Corporate Governance in Slovenia

3.3.1 Corporate Governance Issues during Slovenian Privatization

As one of the youngest European nations, Slovenia's corporate governance system is relatively new and had to develop rapidly in order to comply with Western European standards. Though, the Slovenian government managed to set up an efficient regulatory framework, despite little experience within the field of corporate governance.

Facing the challenge to implement a free market economy, the Parliament of Slovenia adopted the Law on Commercial Companies (LCC) in May 1993, which was modelled on the German "Aktiengesetz". Thus, the Slovenian corporate governance system includes many regulations of Austrian or German governance, such as a mandatory two-tier board structure with employee participation for larger corporations, or disclosure obligations of significant shareholdings exceeding predefined percentage stakes.

Prior to transition, all Slovenian enterprises were socially (not state) owned, following a self-management, decentralized, non-ownership system of corporate governance, with executive managers responsible for the company's day-to-day operations and worker's councils acting as a controlling body (Bohinc and Bainbrige, 2001). This concept had been replaced in the early 1990s with the introduction of property-rights based regulations for business organizations. The new Economic and Labor Relations Code defined four different types of ownership – social, co-operative, mixed and private – however, the decentralization in the decision-making of public enterprises regarding privatization and restructuring had been retained unchanged.

In contrast to the formerly mentioned countries Bulgaria and Romania, among the political parties in Slovenia there existed a clear consensus regarding the importance of transition into a market economy in order to ensure economic stability and competitiveness for the national economy. A moderate unemployment rate between 5 percent and 9 percent and the country's low public debt contributed to the fact, that the government's steps towards free markets obtained great acceptance among Slovenia's two million residents (FiFo Ost, 2002). Though, the country experienced, similar to its neighbours in CEE, administrative and bureaucratic problems in advancing the transition process.

The introduction of a two-tier system of governance with a management and a supervisory board emphasize the similarity of the LCC's regulations to the German "Aktiengesetz". The supervisory board's main responsibilities are within the appointing, monitoring and removing of the management board's members and the reporting to the company's shareholders (Cvelbar and Mihalic, 2007). Employee participation within the supervisory boards is a mandatory norm for larger enterprises.

Compared to other countries in CEE, Slovenia exhibits a relatively low concentration of ownership due to a well-developed regulatory framework with regard to corporate governance and especially minority shareholder protection. Correspondingly, the country was one of the first nations in CEE to create a regulated stock exchange in 1989. After it became independent in 1991, as a result of the collapse of the Yugoslav federation, the country had been regarded as the most prosperous transition economy in CEE with the highest per capita GDP among all of the prospective EU-candidates. Apart from that, the country experienced a relatively "mild" communism without excessive centralization. Slovenia's astonishing economic progress is reflected in the country's accession into the European Monetary Union as the first nation in CEE in January 2007, and the presidency in the Council of the European Union within the first half of 2008. Slovenia is definitely a role model among the post-communist countries in CEE and there is much the country can offer to other transition economies.

3.3.2 The Slovenian Privatization Process

The Slovenian privatization process had been based on a combination of cash and voucher privatization (Simoneti and Gregoric, 2004). Because of the country's unique ownership structure of public enterprises – ownership by everybody and nobody, and not by the state - privatization in Slovenia had slowly gained momentum, since the state could not force managers into privatization. Therefore, the Slovenian government introduced the Slovenian Law on Transformation in 1992 and the formerly mentioned Economic and Labor Relations Code to promote private ownership. Besides, a Privatization Agency was established to oversee the privatization of socially owned property.

The socially owned enterprises were privatized through a combination of partial (free) distribution of shares (vouchers) to insiders, partial allocation of shares to state funds and par-

tial sale to the general public. The allocation of 10 percent of the companies' shares to the Pension Fund, 10 percent to the Restitution Fund (both state-controlled funds), 20 percent to the Development Fund for further sale to Privatization Investment Funds and 20 percent to employees was regulated by the Law on Transformation. The remaining 40 percent of the socially owned enterprises were privatized through three distinct mechanisms (Bohinc and Bainbridge, 2001) – public tenders, employee buyouts or management buyouts (see Figure 9).

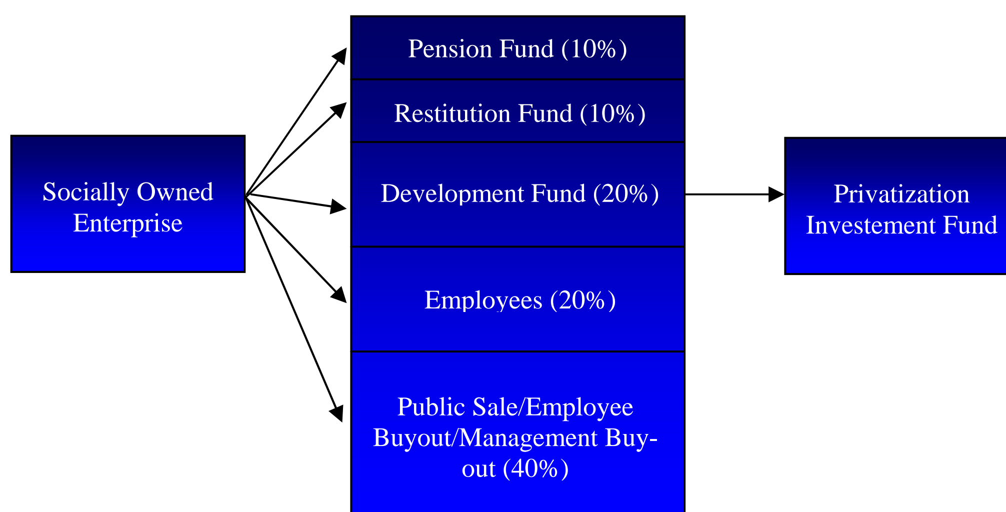

Figure 9: Distinct Mechanisms during Slovenian Privatization
Source: Bohinc and Bainbridge (2001)

The managers of each social enterprise decided on the most appropriate privatization method for their firm, however, the Privatization Agency had to approve the management's decision. The majority of the privatized enterprises opted for insider privatization, especially among most of the smaller companies. Larger corporations had been dominated by institutional investors and outside minority investors. Hence, Slovenian Privatization created two large owner categories – insider ownership, such as employees, managers, former employees and relatives of those persons, and outside ownership in form of Pension, Restitution and Privatization Investment Funds (Simoneti and Gregoric, 2004).

Despite initial protests from the European Council in Brussels, Foreign Direct Investments (FDIs) have somehow been excluded from privatization. Simoneti and Gregoric (2004) report a 0.33 percent stake of FDIs in all privatized companies by 2000. Instead Slovenia opted for privatizing nationally, heavy restructuring and training of domestic qualified personnel in order to develop and strengthen its national industry (Bauer, 2004 and Kalman,

2005). Slovenia's privatization was based on the concept of "economic nationalism". Overhasty sales of the country's large enterprises had been largely avoided. Contrary to other transition economies in CEE, Slovenia did not rely on FDIs by as much as its neighbour countries, due to the country's low public debt. Thus, Slovenia was able to avoid bargain investments by multinational companies, which bring along the threat of shifting production sites from one country to another rather quickly. Still, FDI in Slovenia is among the lowest in the EU on a per capita basis. The most important foreign investors are from Austria and Germany.

Due to Slovenia's slow but well considered privatization process, state ownership is considerably above most of the other transition economies in CEE (Bauer, 2004). By 2004, nearly half of the Slovenian economy had been controlled directly or indirectly via state funds by the government (Bauer, 2004). However, since many Slovenian researchers provided evidence, that companies with a higher private share ownership perform better than their state owned counterparts, the government speeded up the gradual sell-off of ownership controlled by state owned funds (Cvelbar and Mihalic, 2007). Restrictions on foreign trade via the Ljubljana Stock Exchange (LSE) had been removed. In 2007 the LSE's market capitalization increased by 71.5 percent, and thus, was one of the best performing stock markets in Europe.

Overall, the Slovenian transition process can be regarded as successful and efficient. Reasons have been outlined in the two previous chapters – better economic and political preconditions, a strong development of a national industry, homogeneity among politicians and residents regarding transition, the gradual and not overhasty privatization process, the country's favorable geographical position and the relatively high educational background among the country's population.

3.4 Comparing the Transition Process in Bulgaria, Romania and Slovenia – The "Great Divide"

Since the governments of the presented transition economies had adopted different strategies towards free market economies, it is obvious that the overall results of transition were likely to diverge too.

Berglof and Bolton (2002) evaluate the transition process of countries in CEE and point out, that economic development in some transition countries, such as Slovenia, has taken off, whereas others, such as Bulgaria or Romania, were facing institutional backwardness and economic instability. The authors describe this economic gap as the "Great Divide", which is a consequence of the differences in the fiscal and monetary discipline of the respective governments. Lack of fiscal discipline had been associated with the lack of commitment to close down unproductive companies, poor enforcement of property rights and low levels of compliance with regulations. Bulgaria and Romania, two countries on the wrong side of the Great Divide, had lacked an efficient financial development, where excessive lending reduced the incentive to undertake absolutely essential restructuring and eliminated any budget constraint.

Another reason that explains the Great Divide is the difference in the initial economic position before transition took place. Whereas Bulgaria and Romania suffered from centralized communism and an enormous public deficit, Slovenia enjoyed low levels of public debt after its independence, and a relatively modest and decentralized form of communism. Therefore, Slovenia could afford to undertake heavy restructuring and develop a strong domestic industry. On the other hand, Bulgaria and Romania, and many other transition countries in CEE, introduced mass privatization schemes and attracted crowds of foreign, multinational companies with tax exemptions, subsidies, low wages or low energy costs to reduce their public deficits. These companies now tend to shift their factories to even cheaper countries, such as Ukraine or China, as a result of increasing real wages in Bulgaria or Romania (Kalman, 2005).

Furthermore, Slovenia benefits considerably from trade with rich nations located close to the domestic market, such as Austria, Italy or Germany. Besides, restructuring appears to be more attractive in countries, located close to economies with rich populations (Berglof and Bolton, 2002). Thus, Slovenia has a clear competitive advantage over Bulgaria and Romania.

Finally, the European Union played an important role regarding the economic development of transition countries. An efficient corporate governance system had been regarded as a necessary requirement for membership in the European Union. Thus, this created pressure to adopt and enforce laws and regulations to establish a basic corporate governance infra-

structure. Slovenia joined the EU three years before Bulgaria and Romania, which gained accession in 2007. Besides, Slovenia is a member of the European Monetary Union, and thus, has the advantage of a strong and stable currency contrary to the Bulgarian Leva or the Romanian Leu.

However, Bulgaria and Romania have made enormous progress during the last years, and the course is set for these economies to follow in Slovenia's footsteps in the foreseeable future.

4 Transition in Bulgaria, Romania and Slovenia – An Empirical Analysis of the 50 Largest Companies in the Respective Countries

4.1 Introduction

The following chapter illustrates the most important results of my empirical study on the impact of the transition process on each of the 50 largest companies in Bulgaria, Romania and Slovenia.

Within my study I focus on the development of ownership structures during the privatization process in the respective countries. For this purpose, I gathered information regarding the ownership structure of the analyzed companies in two periods of time – the initial years of the transition process and the years after privatization has basically been completed. For Bulgaria and Romania these periods include the years 1995/96 and 2002/03 respectively. Though, a few observations are from 1997 for the first period and 2001 or 2004 for the second period. This should not bias the results of this study, since ownership structures are relatively stable, at least in the short run (La Porta, Lopez-de-Silanes and Shleifer, 1999). Since Slovenia gained independence relatively late in 1991 and information on the first years after independence are rather vague, the first observed period ranges from 1998 to 1999 and the second period from 2003 to 2004. The companies to be analyzed were determined by the size of their total assets within the first period of observation.

The main objective of this empirical study is to illustrate significant differences in the outcomes of privatization, and to test whether the mentioned statements in the theoretical part of this paper are also valid for the largest enterprises in the very countries.

4.2 The Data

The database AMADEUS provided the principal basis for my empirical study. Besides, I used the internet to search for annual reports, articles and other related information of the respective companies, in order to gather missing data and to control for the accuracy of the information.

Afterwards, I used the software package Microsoft Office Excel for the statistical analysis of the gathered data, and created meaningful figures and tables, which highlight the most important results of my empirical analysis.

Altogether, the study comprises 291 observations for 150 companies in two time periods, with 15 defined variables on whose basis the results are presented.

4.2.1 Explanation of Variables

This chapter provides a brief explanation of the most important variables within my empirical study. As already mentioned, I primarily deal with the development of ownership structures for each of the 50 largest enterprises in the three countries Bulgaria, Romania and Slovenia. Thus, the following figure illustrates some of those variables, which I am going to focus on, in a demonstrative manner:

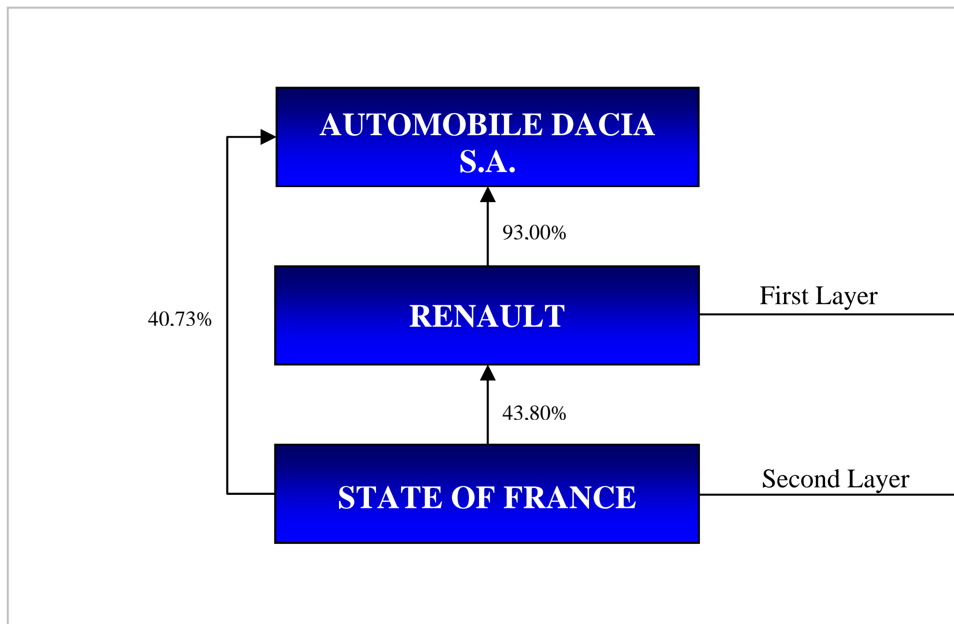

Figure 10: Ownership Structure of Automobile Dacia S.A. in 2001

Automobile Dacia S.A. is a Romanian car manufacturer, which is now a subsidiary of the French car producer Renault. According to the value of its total assets in 1995/96, Automobile Dacia S.A. ranks fourth among the largest Romanian enterprises. In 2001, the second observation period, Renault had a stake of 93 percent in the Romanian enterprise. Thus, Renault is the *largest direct shareholder* of Automobile Dacia S.A. and located on the *first pyramid layer*. Since Renault is again controlled by the State of France with its

43.80 percent ownership, Dacia S.A. is part of a pyramidal ownership structure. The State of France, located on the *second pyramid layer*, is basically owned by the whole French population, and therefore, represents the largest *ultimate owner* of Automobile Dacia S.A. The variable *cash flow rights of ultimate shareholder* with a value of 40.73 percent, indicates the ownership rights of the State of France in the Romanian car manufacturer. This value is calculated by multiplying the stakes of the largest direct shareholders within the corporate pyramid (in our example 93.00 percent and 43.80 percent). As a consequence, the State of France was able to control 93 percent of Dacia's votes with only 40 percent of its capital. Although this example is rather straightforward, it is demonstrative for all 150 observed companies within this empirical work.

Basically the observed variables are categorized regarding the first layer, the ultimate layer and the number of pyramid layers within the ownership structure:

First layer variables comprise the stake of the largest direct shareholder (*shareholder direct*), the type of the largest direct shareholder (*shareholder type,* e.g. bank, family, free float, holding, industrial company, other financial institution, privatization fund or state) and the nationality of the largest direct shareholder (*shareholder country*). I focus only on shareholders with a controlling stake of at least 10 percent, which corresponds to the study of La Porta, Lopez-de-Silanes and Shleifer (1999). If there is no shareholder with a stake of more than 10 percent, I assume that the company is totally in free float.

Ultimate layer variables include the type and nationality of the largest ultimate shareholder (*ultimate shareholder type* and *ultimate shareholder country*), the cash flow rights of the largest ultimate shareholder, as described in Figure 10 (*cash flow rights ultimate shareholder*) and a binary variable (*change ultimate shareholder*), indicating if a change in the type of the ultimate shareholder has occurred from the first to the second period. Besides, I calculated the *cash flow per voting rights ratio*, which is calculated by dividing the ultimate shareholder's cash flow rights (*cash flow rights ultimate shareholder*) by the voting rights of the largest direct shareholder (*shareholder direct*). This ratio is regarded as a good measure of the degree of separation between an ultimate shareholder's financial stake and its actual controlling stake in a company (Francis, Schipper and Vincent, 2003). In the example of Automobile Dacia S.A., illustrated above, the cash flow per voting rights ratio

has a value of 0.44 (40.73 percent divided by 93 percent). A ratio of one would indicate that the cash flow and voting rights are perfectly aligned.

The number of pyramid layers (*number of pyramid layers*) indicates the depth or complexity of the pyramidal structure. The larger the number of layers within a pyramid, the more likely it is, that there is a great divergence between cash flow and voting rights.

I deliberately disregarded the impact of any deviation from a one-share one-vote scheme, since La Porta, Lopez-de-Silanes and Shleifer (1999) give evidence, that the magnitude of shares with differential voting rights tends to be rather small, even for countries with poor protection of minority shareholders. Besides, a study comprising all deviations from one-share one-vote is practically not feasible because disclosure is so limited (see chapter 5.2.5 *Limitations of the Empirical Analysis*).

4.2.2 First Layer Variables

As stated above, first layer variables define the characteristics of the largest direct shareholder and its influence on the observed company. The variable *shareholder direct* measures the ownership right of the largest direct shareholder on the first layer:

	Variable: Shareholder Direct					
	Period 1			**Period 2**		
	Observations	**Mean**	**Median**	**Observations**	**Mean**	**Median**
Bulgaria	50	83.98%	100.00%	48	77.06%	79.50%
Romania	50	63.20%	70.00%	48	60.15%	63.60%
Slovenia	50	57.57%	53.50%	45	55.62%	51.00%
Total	150	68.22%	70.00%	141	64.46%	67.00%

Table 4: Cash Flow Rights of Largest Direct Shareholders

Direct shareholdings in the 50 largest Slovenian enterprises are considerably lower than those in Bulgarian and Romanian companies. Though, all countries show a tendency towards an increasing dispersion of ownership, whereas this tendency is the least in Slovenia, due to its already existing low levels of ownership concentration in the country's larg-

est companies. This is partly due to the fact, that Slovenia experienced a relatively "mild" and decentralized form of communism and had already developed a comprehensive regulatory framework with regard to corporate governance.

Bulgaria, the country with the weakest regulations regarding corporate governance, especially minority shareholder protection, shows the most concentrated ownership structure. This corresponds to the findings of many scholars, that ownership concentration is a substitute for poor shareholder protection (La Porta et al., 1998). Besides, Bulgaria's first steps towards privatizing the state's large enterprises were taken many years after Romania started to sell its strategic companies. Another explanation for the huge gap in the level of ownership concentration between Bulgaria and Romania is the low popularity of Romania's privatization funds, leading to an even more dispersed ownership than expected, since those funds were not able to accumulate significant blocks of shares (see chapter 4.2.2 *The Romanian Privatization Process*).

The next table illustrates the shareholder types of the largest direct shareholders in the observed enterprises:

	Variable: Shareholder Type							
	Period 1							
	Bank	Holding	Family	Freefloat	Industrial Company	Other Financial Institution	Privatization Fund	State
Bulgaria	0.00%	4.00%	0.00%	0.00%	12.00%	0.00%	2.00%	82.00%
Romania	0.00%	0.00%	4.00%	4.00%	14.00%	0.00%	74.00%	4.00%
Slovenia	6.00%	0.00%	18.00%	0.00%	24.00%	2.00%	34.00%	16.00%
Average	2.00%	1.33%	7.33%	1.33%	16.67%	0.67%	36.67%	34.00%

	Period 2							
	Bank	Holding	Family	Freefloat	Industrial Company	Other Financial Institution	Privatization Fund	State
Bulgaria	0.00%	18.75%	0.00%	2.08%	56.25%	2.08%	0.00%	20.83%
Romania	0.00%	16.67%	2.08%	6.25%	54.17%	0.00%	18.75%	2.08%
Slovenia	6.67%	8.89%	8.89%	0.00%	40.00%	0.00%	28.89%	6.67%
Average	2.22%	14.77%	3.66%	2.78%	50.14%	0.69%	15.88%	9.86%

Table 5: Types of Largest Direct Shareholders

It is quite striking to note that bank ownership or controlling stakes by other financial institutions are practically nonexistent during both of the two periods in Bulgaria and Romania. This can be explained by the troubled financial situation of many domestic banks. As a consequence, bank ownership had developed rather slowly, since the financial sector had to consolidate at first and implement a market-based banking system (see Chapter 3.4.1. *Challenges during Privatization in Transition Economies in Central and Eastern Europe*).

The impact of state ownership, being it directly or indirectly via privatization funds, decreased considerably in favor of industrial companies and holdings. The latter may also be categorized as "miscellaneous" because holdings may be owned by many of the other ownership types. Since only a minority of these institutions disclose their ownership structure, holdings are shown separately. The increased impact of private ownership is illustrated in the following figure:

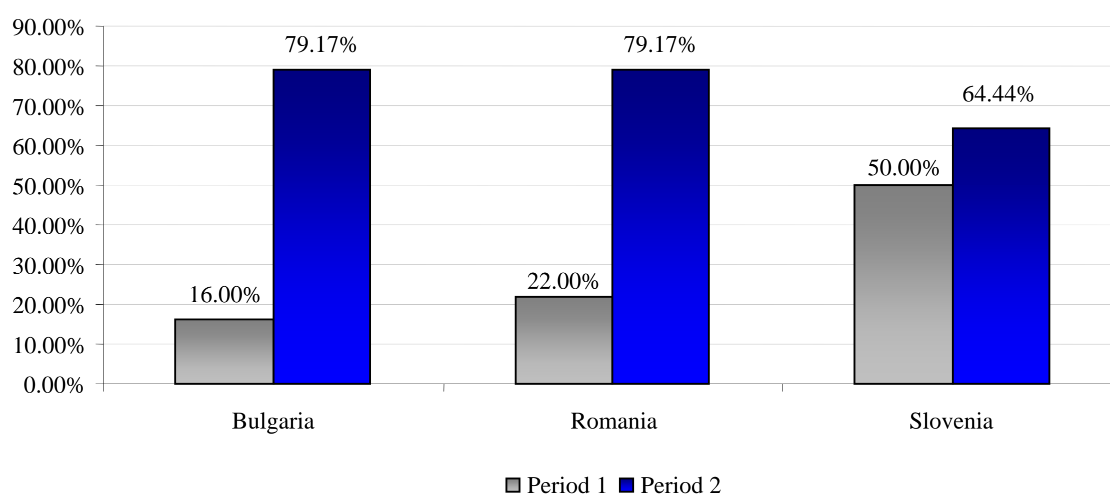

Figure 11: Development of Private Ownership

Whereas the impact of private ownership on the 50 largest companies has increased considerably to nearly 80 percent in Bulgaria and Romania, privatization of Slovenia's largest enterprises had been rather slow-going. This is consistent with the theoretical part of this paper on the Slovenian privatization process, where I explain that the Slovenian government preferred to build up a strong national industry and carry out intensive restructuring instead of divesting public companies by means of mass privatization. Thus, the Slovenian state's influence on its largest companies is considerably above the impact of its Bulgarian or Romanian counterparts on the largest enterprises in the respective countries.

	Variable: Shareholder Country						
	Bulgaria		**Romania**		**Slovenia**		
	Period 1	**Period 2**	**Period 1**	**Period 2**	**Period 1**	**Period 2**	**Total**
Domestic	45	32	46	23	39	34	219
Austria	0	2	1	2	2	2	9
Belgium	2	2	0	0	0	0	4
Cyprus	0	2	0	1	0	0	3
Czech Republic	0	0	0	0	2	1	3
France	0	0	0	1	1	2	4
Germany	2	3	1	4	2	1	13
Greece	0	1	1	1	0	0	3
Italy	0	1	0	0	2	1	4
Netherlands	0	0	0	5	0	1	6
Switzerland	0	0	0	3	0	1	4
USA	1	3	0	3	0	0	7
Others	0	2	1	5	2	2	12
Total	50	48	50	48	50	45	291

Table 6: Frequencies of Nationalities of Largest Direct Shareholders

The previous table (see Table 6) confirms the increasing participation of foreign investors in the Bulgarian and Romanian privatization process. Regarding Slovenia, domestic ownership has remained the dominant form of ownership. Again, this corresponds to the fact, that Slovenia initially preferred domestic over foreign ownership in order to strengthen the national industry.

Austria, Germany, the Netherlands and the US are the most prevalent foreign shareholders in the observed countries, however, the US does not play a major role in the ownership of the 50 largest Slovenian enterprises. The following figure compares the share of foreign ownership in the 50 largest companies in Bulgaria, Romania and Slovenia:

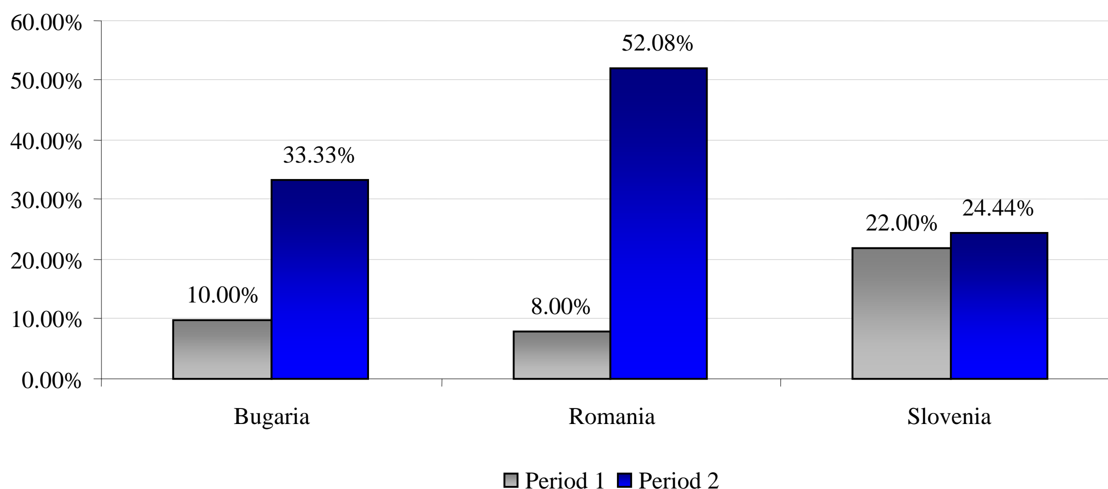

Figure 12: Share of Foreign Direct Ownership

Figure 12 indicates that the majority of Slovenia's largest enterprises is still controlled by domestic owners (families, industrial companies and the state), whereas foreign ownership has increased significantly in Bulgaria and Romania. Though, Romania's largest companies seem to be more attractive to foreign investors than Bulgarian enterprises (possible reasons are stated in the chapter 4.2 "*Privatization and Corporate Governance in Romania*").

4.2.3 Ultimate Layer Variables

This chapter highlights the results of my empirical study on the ultimate layer of the ownership structure of the 50 largest companies in Bulgaria, Romania and Slovenia.

The variable *cash flow rights ultimate shareholder*, explained in figure 10, measures the impact of the largest ultimate shareholder on the analyzed companies. The results are summarized in the following table:

	Variable: Cash Flow Rights Ultimate Shareholder					
	Period 1			**Period 2**		
	Observations	**Mean**	**Median**	**Observations**	**Mean**	**Median**
Bulgaria	50	82.91%	100.00%	48	59.25%	61.20%
Romania	50	60.41%	70.00%	48	41.63%	40.36%
Slovenia	50	53.51%	53.50%	45	42.71%	33.44%
Total	150	65.61%	70.00%	141	47.97%	50.87%

Table 7: Cash Flow Rights of Largest Ultimate Shareholders

Similar to the variable *shareholder direct* the development of the ultimate shareholders' cash flow rights from the first to the second period shows a tendency towards ownership dispersion. However, the influence of the largest ultimate owners on the observed companies is still rather strong, which is a common result of the emergence of corporate pyramids, which until now dominate the picture of corporate ownership in Continental Europe (La Porta, Lopez-de-Silanes and Shleifer, 1999).

The divergence between the cash flow rights of the largest ultimate shareholders and those of the largest direct shareholders, as measured by the *cash flow per voting rights ratio*, is significantly larger in the second period of my observations (see Table 8):

	Variable: Cash Flow per Voting Rights Ratio					
	Period 1			**Period 2**		
	Observations	**Mean**	**Median**	**Observations**	**Mean**	**Median**
Bulgaria	50	0.99	1.00	48	0.77	0.77
Romania	50	0.96	1.00	48	0.69	0.63
Slovenia	50	0.93	0.94	45	0.77	0.66
Total	150	0.96	1.00	141	0.74	0.76

Table 8: Cash Flow per Voting Rights Ratio

The decreasing value of the cash flow per voting rights ratio is partly due to the increasing number of pyramid layers in the second period, which is illustrated later in this chapter.

Table 9 shows the types of owners on the ultimate layer of the observed companies. Regarding Bulgaria and Romania, the table demonstrates similar developments to those on the first layer of the ownership structure – a decreasing influence of the domestic state on the companies in favor of industrial companies. Besides, foreign states have gained significant stakes in Romania, and the impact of individuals or families on the ultimate layer is much stronger than on the first layer, since enterprises are usually controlled by the latter ownership type. Financials take a rather unimportant position in the ownership of the countries' largest enterprises.

Again, Slovenia represents the opposite with even increasing cash flow rights of the Slovenian state. The results point to a strong influence of the Slovenian state on many of the country's enterprises. The government controls the majority of the country's largest companies, if not as a direct shareholder, then on the ultimate layer via corporate pyramids.

	Variable: Ultimate Shareholder Type							
	Period 1							
	Bank	Holding	Family	Foreign State	Freefloat	Industrial Company	Other Financial Institution	State
Bulgaria	0.00%	0.00%	4.00%	0.00%	0.00%	10.00%	0.00%	86.00%
Romania	0.00%	0.00%	8.00%	2.00%	4.00%	8.00%	0.00%	78.00%
Slovenia	4.00%	2.00%	22.00%	6.00%	0.00%	12.00%	4.00%	50.00%
Average	1.33%	0.67%	11.33%	2.67%	1.33%	10.00%	1.33%	71.33%

	Period 2							
	Bank	Holding	Family	Foreign State	Freefloat	Industrial Company	Other Financial Institution	State
Bulgaria	0.00%	12.50%	31.25%	0.00%	2.08%	33.33%	0.00%	20.83%
Romania	0.00%	4.17%	35.42%	10.42%	6.25%	16.67%	6.25%	20.83%
Slovenia	6.67%	6.67%	15.56%	4.44%	2.22%	8.89%	2.22%	53.33%
Average	2.22%	7.78%	27.41%	4.95%	3.52%	19.63%	2.82%	31.66%

Table 9: Types of Largest Ultimate Shareholders

The results presented in table 9 are again highlighted graphically in the following figure (see Figure 13). Striking is the even decreasing share of private control on the ultimate layer in Slovenia, whereas the impact of private ultimate shareholders has jumped consid-

erably in Bulgaria and Romania. The results of Slovenia correspond to the findings of Bauer (2004), mentioned in the theoretical part of this paper, that half of the Slovenian economy had been controlled directly or indirectly by the State. According to the results of this study, Slovenia's 50 largest enterprises do not present an exception.

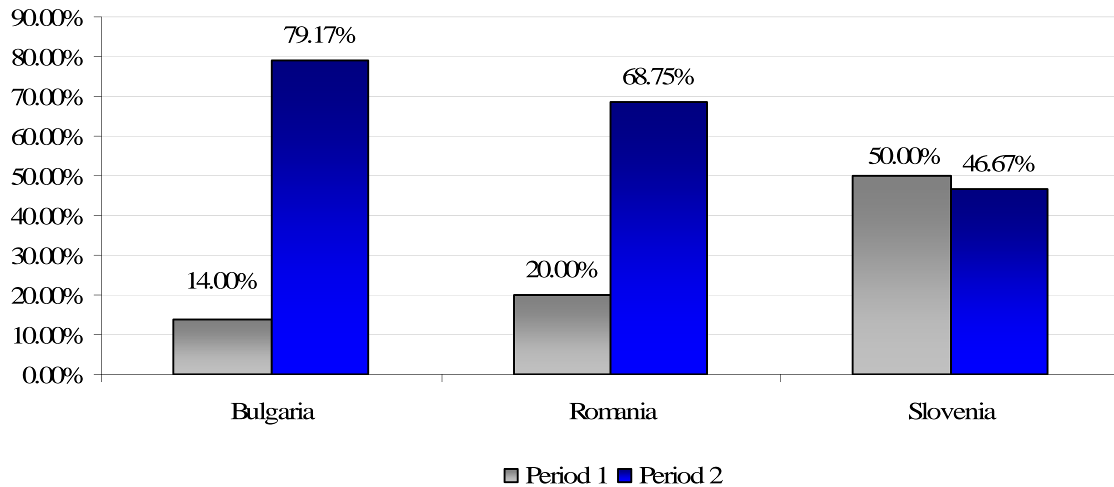

Figure 13: Share of Private Ultimate Ownership

Table 10 presents the results of the variable *ultimate shareholder country*, which illustrates the nationalities of the largest ultimate shareholders. Similar to the findings on the first layer, the results show a tendency towards increased foreign ownership. Again, Austria, Germany and the US play a considerable role within the ownership structure of the countries' largest enterprises. Besides, Russia and the UK hold significant cash flow rights on the ultimate layer, whereas they have virtually no direct shareholdings in the observed companies.

	Variable: Ultimate Shareholder Country						
	Bulgaria		Romania		Slovenia		
	Period 1	Period 2	Period 1	Period 2	Period 1	Period 2	Total
Domestic	45	27	44	18	38	32	204
Austria	0	1	1	4	2	3	11
Belgium	2	2	0	0	1	1	6
Cyprus	0	2	0	1	0	0	3
Czech Republic	0	0	0	0	2	0	2
France	0	1	1	2	1	2	7
Germany	2	4	1	3	2	1	13
Greece	0	1	1	0	0	0	2
Italy	0	2	0	1	2	1	6
Russia	0	0	0	3	0	1	4
Netherlands	0	0	0	2	0	0	2
Switzerland	0	0	0	2	0	1	3
United Kingdom	0	1	1	4	0	1	7
USA	1	3	0	3	1	1	9
Others	0	4	1	5	1	1	12
Total	50	48	50	48	50	45	291

Table 10: Frequencies of Nationalities of Largest Ultimate Shareholders

The increasing role of foreign investors is again emphasized in the following figure (see Figure 14). The low percentage of foreign ultimate shareholdings in Slovenia indicates that generally ownership remains within national boundaries, even across corporate pyramids.

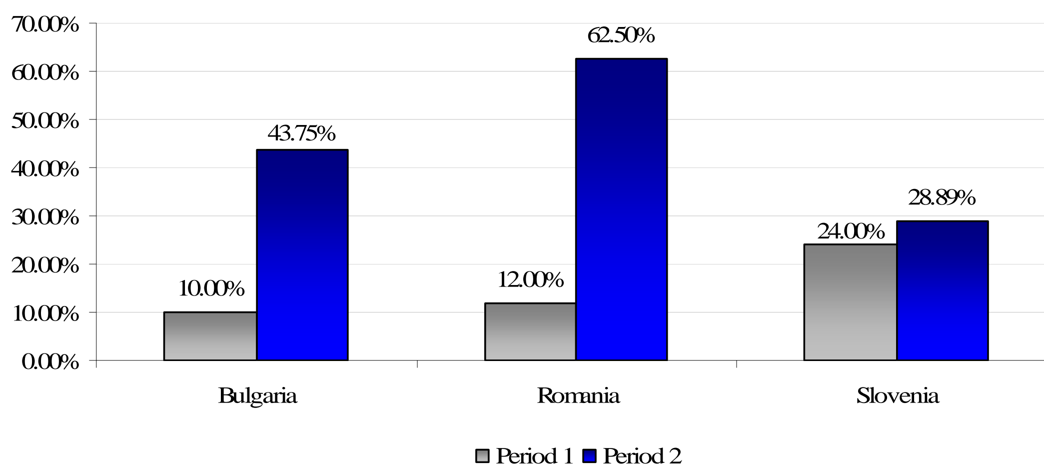

Figure 14: Share of Foreign Ultimate Shareholdings

The last variable regarding the ultimate layer within the ownership structure is the variable *change ultimate shareholder*. It indicates the percentage of companies which experienced a change in the type of the ultimate shareholder. Among the 141 companies, where data for both periods were available, about two thirds of the Bulgarian and Romanian companies had a change in the type of the ultimate shareholder, whereas the ultimate owner of only one third of the Slovenian enterprises has changed from one period to the other. This gap is again a result of the different strategies, the governments have implemented, towards the implementation of a free market economy.

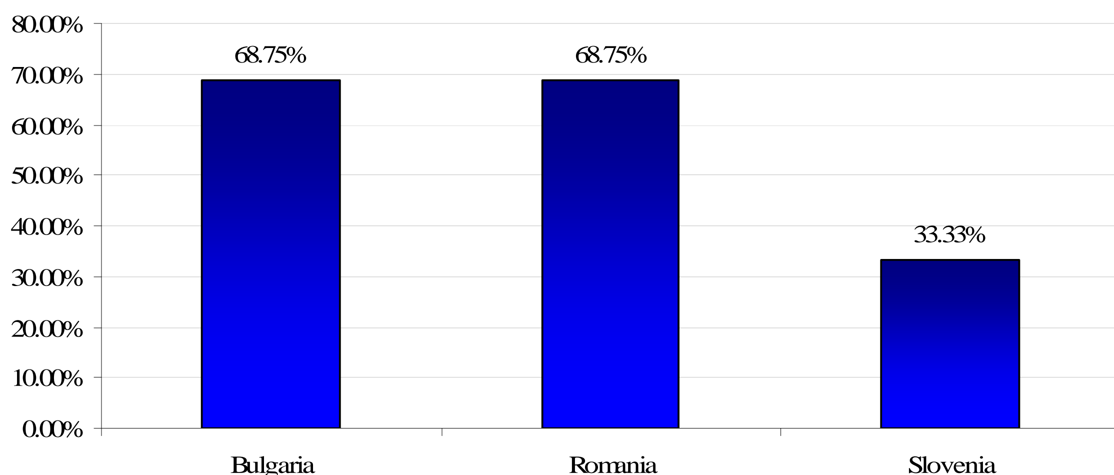

Figure 15: Change in Type of Ultimate Shareholder

4.2.4 Number of Pyramid Layers

As already mentioned at the beginning of this chapter, the number of pyramid layers is an important variable, which indicates the depth or complexity of a company's ownership structure. The larger the number of layers within a corporate pyramid, the longer is the controlling or monitoring path of the ultimate owner. However, corporate pyramids enable ultimate shareholders to greatly enhance their control rights in excess of their cash flow rights (La Porta, Lopez-de-Silanes and Shleifer, 1999).

	Variable: Number of Pyramid Layers					
	Bulgaria		**Romania**		**Slovenia**	
No. of Layers	**Period 1**	**Period 2**	**Period 1**	**Period 2**	**Period 1**	**Period 2**
1	90.00%	50.00%	24.00%	25.00%	50.00%	26.67%
2	10.00%	31.25%	72.00%	37.50%	44.00%	55.56%
3	0.00%	12.50%	2.00%	29.17%	6.00%	17.78%
4	0.00%	6.25%	0.00%	6.25%	0.00%	0.00%
5	0.00%	0.00%	2.00%	2.08%	0.00%	0.00%
Average	1.10	1.75	1.84	2.23	1.56	1.91

Table 11: Number of Pyramid Layers

In all the three countries the companies experienced a strong enlargement of corporate pyramids, which is obtained through an increase of the number of pyramid layers. This tendency is reflected by the strong decline of companies in Bulgaria and Slovenia with an ultimate owner on the first layer of the ownership structure. However, those results may be biased by the fact, that some countries have implemented privatization funds to a larger degree than others (e.g. Romania).

Though, the results show a larger complexity of corporate pyramids and a tendency towards an enhancement of the ultimate shareholders' control rights in excess of their cash flow rights.

4.2.5 Limitations of the Empirical Analysis

During the process of gathering information on the 150 companies I faced many obstacles in connection with a lack of data availability. Some enterprises within the sample changed their names, were part of mergers or acquisitions, changed their field of operations or simply went bankrupt from one period to the other. Besides, limited regulations regarding disclosure of company related information complicated the process of information gathering. As a consequence, I was not able to collect adequate information on nine companies for the second observation period. Thus, my study is based on 291 observations for 150 companies, whereas only 141 firms provide data for both periods.

I used the database AMADEUS as my principal source of information, however, some information, such as the type of the largest direct or ultimate shareholder, were rather unclear (e.g. in the case of an involved holding company). Thus, I used the internet to search for annual reports, newspaper articles and other company related information to control for the accuracy of the data provided by AMADEUS. Furthermore, I directly contacted the companies in the case of information discrepancies. Unfortunately, the latter method – direct contact with the companies – provided only limited success, due to a very low response rate.

During the data evaluation I did not consider any deviation from a one-share one-vote scheme since La Porta, Lopez-de-Silanes and Shleifer (1999) provide evidence that the magnitude of preferential shares is rather small and does not bias the results. However, their study did not include countries in CEE and one should be cautious in interpreting their findings.

Another limitation of this study is the time scale of the analysis, ranging from 1995 to 2003 in Bulgaria and Romania, and from 1997 to 2004 in Slovenia. Thus, the study does not perfectly reflect today's outcomes of privatization, since some more companies have been privatized after the second observation period, especially in Bulgaria and Slovenia.

Nonetheless, I was doing my best to conduct a useful empirical study comprising a representative sample within a period of time, which I regard as the most characteristic years of privatization in the observed countries.

5 Conclusion

During the 1990s corporate governance in Central and Eastern Europe experienced widespread amendments due to the countries' transition from a command to a market economy. Whereas corporate governance regulations were practically nonexistent before the implementation of free markets in those countries, many nations can nowadays boast with higher levels of investor rights protection than some of their Western European counterparts. However, most of the countries in Central and Eastern Europe are facing severe difficulties in the implementation of effective law enforcement, and thus, are adversely affected by corruption and bribery. Due to many internal and external obstacles, the overall transition process was a complicated and initially unexpectedly slow-going process.

The principal element of transition – privatization of state owned enterprises – has seen many different characteristics with regard to the speed of the privatization program, the privatization method or the openness towards foreign investors. As a result, the economic outcome of privatization across the transition countries in Central and Eastern Europe was far from homogenous. Whereas some countries managed to overcome the problems a sudden transition towards free markets entails, rather successful, others were facing institutional backwardness and macroeconomic instability. Besides, ownership structures of privatized companies have changed considerably with the participation of private investors. Again, the impact of privatization on ownership structures had been rather unequal across transition economies regarding the level of ownership concentration and the dominant type of the ultimate shareholder. Within my empirical study on the effects of privatization regarding ownership rights, on the 50 largest enterprises in Bulgaria, Romania and Slovenia, I observe the practical relevance of the comprehensive theoretical background, presented in the first part of this thesis, for this group of companies.

The results of the empirical analysis highlight the developments of ownership in the three observed countries – a decreasing level of public ownership, an increasing participation of foreign investors and the emergence of corporate pyramids. Furthermore, the inconsistency in the development of ownership rights, as a result of the different privatization strategies, is illustrated in meaningful figures and tables and provides evidence, that the countries' largest enterprises provide a representative sample and do not represent an exception.

6 References

6.1 Bibliography

Amihud, Y. and Lev, B., "Does Corporate Ownership Structure Affect its Strategy towards Diversification?", *Strategic Management Journal Vol. 20(11)*, 1999, pp. 1063-1069.

Atanasov, B., *Privatization and Corporate Governance in a Transition Economy: The Case of Bulgaria*, PhD Dissertation, University of Delaware, USA, 2003.

Badulescu, D. and Badulescu, A., *Corporate Governance in Romania: The State of the Art and Recent Developments*, Working Paper, University of Oradea, Oradea, Romania, 2008.

Bauer, W.T., *Privatisierung und Liberalisierung öffentlicher Dienstleistungen in der EU-neue Mitgliedsstaaten: Slowenien*, Working Paper, Österreichische Gesellschaft für Politikberatung und Politikentwicklung, Vienna, Austria, 2004.

Bergh, D.D., "Size and Relatedness of Units Sold", *Strategic Management Journal Vol. 16(3)*, 1995, pp. 221-240.

Berglof, E. and Bolton, P., "The Great Divide and Beyond: Financial Architecture in Transition", *Journal of Economic Perspectives Vol. 16(1)*, 2002, pp. 77-100.

Berle, A. and Means G., *The Modern Corporation and Private Property*, Macmillan, New York, USA, 1932.

Blasi, J., Conte, M. and Kruse, D., "Employee Stock Ownership and Corporate Performance among Public Companies". *Industrial Labor Relation Review Vol. 50(1)*, 1996, pp. 60-79.

Boardman, A. and Vining, A.R., "Ownership vs. Competition: Efficiency in Public Enterprise", *Public Choice Vol. 73*, 1992, pp. 205-239.

Boardman, A. E. and Vining, A.R., "Ownership and Performance in Competitive Environments. A Comparison of the Performance of Private, Mixed and State-Owned Enterprises", *Journal of Law and Economics, Vol. 32(1)*, 1989, pp. 1-33.

Bohinc, R. and Bainbridge, S.M., "Corporate Governance in Post-Privatized Slovenia", *American Journal of Comparative Law Vol. 49(1)*, 2001, pp. 49-77.

Bortolotti, B., Fantini, M. and Siniscalco, D., "Privatisation: Politics, Institutions, and Financial Markets", *Emerging Markets Review Vol. 2(2)*, 2001, pp. 109-137.

Boubakri, N. and Cosset, J., "The Financial and Operating Performance of Newly-Privatized Firms: Evidence from Developing Countries", *Journal of Finance 53*, 1998, pp. 1081-1110.

Boubakri, N., Cosset, J.C. and Guedhami, O., *Liberalization, Corporate Governance and the Performance of Newly Privatized Firms*, Working Paper, University of Michigan, Michigan, USA, 2001.

Boyko, M., Shleifer, A. and Vishny, R.W., "A Theory of Privatization", *Economic Journal Vol. 106*, pp. 309-319.

Brada, J.C., "Privatization is Transition – Or is it?", *Journal of Economic Perspectives, Vol. 10(2)*, 1996, pp. 67-86.

Burkart, M., Gromb, D. and Panunzi, F., "Large Shareholders, Monitoring, and the Value of the Firm", *Quarterly Journal of Economics Vol. 112*, 1997, pp. 693-728.

Burkhart, M., Panunzi, F. and Shleifer, A., "Family Firms", *Journal of Finance Vol. 58*, 2003, pp. 2167-2201.

Claessens, S. and Djankov, S., "Ownership Concentration and Corporate Performance in the Czech Republic", *Journal of Comparative Economic Vol. 27*, 1999, pp. 498-513.

Cronquist, H. and Nilsson M., “Agency Costs of Controlling Minority Shareholders”, *Journal of Financial and Quantitative Analysis Vol. 38(4)*, 2003, pp. 695-719.

Cvelbar, L.K. and Mihalic, T., “Ownership Structure as a Corporate Governance Mechanism in Slovenian Hotels”, *Economic Trends and Economic Policy Vol. 112*, 2007, pp. 26-51.

Demsetz, H. and Lehn, K., “The Structure of Corporate Ownership: Causes and Consequences”, *Journal of Political Economy, Vol. 93(6)*, 1985, pp. 1155-1177.

Denis, D. K. and McConnell, J.J., *International Corporate Governance*, ECGI - Finance Working Paper Nr. 5, Purdue University, Indiana, USA, 2003.

Dewenter, K. and Malatesta, P.H., “State-Owned and Privately-Owned Firms: An Empirical Analysis of Profitability, Leverage, and Labour Intensity”, *American Economic Review Vol. 91*, 2001, pp. 320-334.

Dittmar, A., Mahrt-Smith, J. and Servaes, H., “International Corporate Governance and Corporate Cash Holdings,” *Journal of Financial and Quantitative Analysis Vol. 38(1)*, 2003, pp. 111-133.

Djankov, S. and Murrell, P., “Enterprise Restructuring in Transition: A Quantitative Survey”, *Journal of Economic Literature Vol. 40(3)*, 2002, pp. 739-792.

D'Souza, J. and Megginson, W.L., “The Financial and Operating Performance of Newly Privatized Firms in the 1990s”, *Journal of Finance 54*, 1999, pp. 1397-1438.

Earle, J. S. and Telegdy, Á., *Privatization Methods and Productivity Effects in Romanian Industrial Enterprises*, Working Paper No. 02-81, Upjohn Institute for Employment Research, Michigan, USA, 2002.

Francis, J., Schipper, K. and Vincent, L., *Earnings and Dividends Informativeness When Cash Flow Rights are Separated from Voting Rights*, Working Paper, Duke University, North Carolina, USA, 2003.

Franks, J. and Mayer, C., “Ownership and Control of German Corporations.” *Review of Financial Studies Vol. 12*, 2001, pp. 943-977.

Franks, J., Mayer, C. and Wagner, H.F., *The Origins of the German Corporation: Finance, Ownership and Control*, ECGI - Finance Working Paper Nr. 110, University of Oxford, London Business School, UK, 2005.

Friedman, M. and Friedman, R., *Capitalism and Freedom*, University of Chicago Press, Chicago, USA, 1962.

Frydman, R., Gray, C.W., Hessel, M.P. and Rapaczynski, A., *Private Ownership and Corporate Performance: Some Lessons from Transition Economies*, World Bank Policy Research Working Paper No. 1830, World Bank, Washington D.C., USA, 1997.

Frydman, R., Hessel, M.P. and Rapaczynski, A., *Why Ownership Matters: Entrepreneurship and the Restructuring of Enterprises in Central Europe*, Working Paper, New York University, New York, USA, 2000.

Gedajlovich, E. and Shapiro, D., “Management and Ownership Effects: Evidence from 5 Countries”, *Strategic Management Journal Vol. 19(6)*, 1998, pp. 533-555.

George, G. and Prabhu, G.N., “Developmental Financial Institutions as Catalysts of Entrepreneurship in Emerging Economies”, *Academy of Management Review, Vol. 2(3)*, 2000, pp. 620-629.

Hellwig, M., *On the Privatization of State Activities*, Research Outlook, Max-Plank-Institut, Bonn, Germany, 2006.

Hinds, M. and Pohl, G., *Going to Market: Privatization in Central and Eastern Europe*, PRE Working Paper 768, World Bank, Washington D.C., USA, 1991.

Holderness, C. and Sheehan, D., “The Role of Majority Shareholders in Publicly Held Corporations: An Exploratory Analysis”, *Journal of Financial Economics Vol. 3*, 1988, pp. 305-360.

Jensen, M. and Mecking, W., “Theory of the Firm: Managerial Behaviour, Agency Costs, and Ownership Structure”, *Journal of Financial Economics Vol. 3*, 1976, pp. 205-360.

Jones, D., (1993), “The Productivity Effects of Employee Ownership within Command Economies: Evidence from Poland”, *Managerial and Decision Economics, Vol. 14(5)*, Special Issue: Labor Managed Firms under Imperfect Competition (and Related Problems), 1993, pp. 475-485.

Kang, D.L. and Sorensen, A.B., “Ownership Organization and Firm Performance”. *Annual Review of Sociology Vol. 25*, 1999, pp. 121-144.

Keremidchiev, S., *Towards Modernization of the Corporate Governance in Bulgaria*, Working Paper, Institute of Economics, Bulgarian Academy of Science, Inter-University Centre, Dubrovnik, Croatia, 2004.

Kikeri, S., Nellis, J. and Shirley, M., *Privatization: The Lessons of Experience*, Working Paper, World Bank, Washington D.C., USA, 1992.

La Porta, R., Lopez-de-Silanes, F. and Shleifer, A., “Government Ownership of Banks”, *Journal of Finance Vol 57(1),* 2002, pp. 265-301.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny R.W., “Investor Protection and Corporate Governance”, *Journal of Financial Economics Vol. 58*, 2000, pp. 3-27.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R.W., “Law and Finance”, *Journal of Political Economy, Vol. 106(6)*, 1998, pp. 1113-1155.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A. and Vishny, R.W., “Legal Determinants of External Finance”, *Journal of Finance Vol. 52*, 1997, pp. 1131-1150.

La Porta, R., Lopez-de-Silanes, F. and Shleifer, A.., “Corporate Ownership Around the World” *Journal of Finance Vol. 54*, 1999, pp. 471-517.

Laban, R. and Wolf, H.C., "Large-Scale Privatization in Transition Economies", *American Economic Review, Vol. 83(5)*, 1993, pp. 1199-1210.

Lawrence P.R. and Lorsch J.W., "Organization and Environment", *Harvard Business School Press*, 1967.

Lloyd W.P., Hand, J.H. and Modani N.K., "The Effect of the Degree of Ownership Control on Firm Diversification, Market Value and Merger Activity", *Journal of Business Research Vol. 15(4)*, 1987, pp. 303-312.

Lopez-de-Silanes, F., "Determinants of Privatization Prices", *Quarterly Journal of Economics, Vol. 112(4)*, 1997, pp. 965-1025.

McConnell, J.J. and Servaes, H., "Additional Evidence on Equity Ownership and Corporate Value", *Journal of Financial Economics Vol. 27(2)*, 1990, pp. 595-612.

Megginson, W. L. and Netter, J.F., "From State to Market: A Survey of Empirical Studies on Privatization", *Journal of Economic Literature, Vol. 39(2)*, 2001, pp. 321-389.

Megginson, W.L., Nash, R.C., Netter, J.M. and Poulsen, A.B., "The Choice of Private versus Public Capital Markets: Evidence from Privatizations", *The Journal of Finance Vol. 59(6)*, 2004, pp. 2835-2870.

Milanovic, B., "Liberalization and Entrepreneurship: Dynamics of Reform in Socialism and Capitalism", *Journal of Comparative Economics Vol 15(4)*, 1991, pp. 720-722.

Miller, J., *Evaluation of Mass Privatization in Bulgaria*, Working Paper No. 814, William Davidson Institute, University of Michigan, Michigan, USA, 2006.

Otten, J.A., Schenk H. and Heugens, P., *Corporate Governance Reforms and Firm Ownership Around the World*, Working Papers 06-01, Utrecht School of Economics, Utrecht, Netherlands, 2006.

Pistor, K., Raiser, M. and Gelfer, S., "Law and Finance in Transition Economies", *Economics of Transition Vol. 8*, 2000, pp. 325-368.

Podkaminer, L., *Transition Countries: Economic Developments in Early 1995 and Outlook for 1995 and 1996*, Vienna Institute for Comparative Economic Studies Research Reports No. 219 and No. 220, Vienna, Austria, 1995.

Pohl, G., Anderson, R.E., Claessens, S. and Djankov, S., *Privatization and Restructuring in Central and Eastern Europe*, World Bank Technical Paper No. 368, World Bank, Washington D.C., USA, 1997.

Pound, J., *The Rise of the Political Model of Corporate Governance and Corporate Control*, Unpublished Manuscript, Harvard University, Boston, USA, 1992.

Price Waterhouse, *Privatization: Learning the Lessons from the U.K. Experience*. London, UK, 1989a.

Price Waterhouse, *Privatization: The Facts*, London, UK, 1989b.

Prohaska, M., *Bulgaria: Summing Up Privatization*, Working Paper, Center for the Study of Democracy, Sofia, Bulgaria, 1996.

Prohaski, G., "A review of Bulgarian Privatisation", Working Paper, Organisation for Economic Co-operation and Development (OECD), Paris, France, 1998.

Schaft, F., Schläger-Zirlik, P. and Schnitzer, M., *Privatisierung in Osteuropa: Strategien, Entwicklungswege, Auswirkungen und Ergebnisse*, Working Paper No. 13, Forschungsverbunds Ost- und Südosteuropa, Munich, Germany, 2003.

Shleifer, A. and Vishny, R.W., "A Survey of Corporate Governance", *Journal of Finance Vol. 52(2)*, 1997, pp. 737-783.

Shleifer, A., "State versus Private Ownership", *Journal of Economic Perspectives, American Economic Association Vol. 12(4)*, 1998, pp. 133-150.

Sigma Bleyzer, *Romania: Country Overview*, October 2003, Country Report, The Bleyzer Foundation, Kiev, Ukraine, 2003.

Simoneti, M. and Gregoric, A., "Managerial Ownership and Corporate Performance in Slovenian Post-Privatization Period", *European Journal of Comparative Economics Vol. 1(2)*, 2004, pp. 217-241

Smith, A., *The Wealth of Nations*, Cannan Edition, Modern Library, New York, USA, 1937 [1776].

Stelzer-O'Neill, B., *Investmentfonds im Privatisierungsprozess – Länderstudien: Polen, Rumänien, Kasachstan und Usbekistan*, Working Paper, Deutsche Gesellschaft für Technische Zusammenarbeit GmbH, Eschborn, Germany 2000.

Svejnar, J., "Transition Economies: Performance and Challenges", *Journal of Economic Perspectives, Vol. 16(1)*, 2002, pp. 3-28.

Telegdy, Á., *Management – Employee Buyouts in Romania. Privatization Process and Ownership Outcomes*, Working Paper, Budapest University of Economic Sciences and Central European University, Budapest, Hungary, 2002.

Thomsen, S. and Pedersen, T., "Ownership Structure and Economic Performance in the Largest European Companies", *Strategic Management Journal Vol. 21(6)*, 2000, pp. 689-705.

Todeva, E. and Kuntchev, V., *Investment Strategies Applied During The Mass Privatisation Wave In Central And Eastern Europe: The Case Of Bulgaria*, Working Paper, University of Surrey, UK, 2000.

Valadares, S.M. and Leal, R.P.C., *Ownership and Control Structure of Brazilian Companies*, Working Paper, COPPEAD Graduate School of Business at the Federal University of Rio de Janeiro, Rio de Janeiro, Brazil, 2000.

Xu, X. and Wang, Y., *Ownership Structure, Corporate Governance, and Firms' Performance: The Case of Chinese Stock Companies*, Working Paper, World Bank, Washington D.C., USA, 1997.

Zeckhouser, R. and Pound, J., "Are Large Shareholders Effective Monitors? An Investigation of Share Ownership and Corporate Performance", *Asymmetric Information, Corporate Finance and Investment*, 1990, pp. 149-180.

6.2 Internet Sources

Bertelsmann Stiftung, „Bertelsmann Transformations Index 2003“, URL: www.bertelsmann-transformation-index.de (08-07-30).

Bloomberg, International Data Provider, URL: http://www.bloomberg.com (08-08-30)
Bulgarian Stock Exchange, URL: http://www.bse-sofia.bg (08-08-30).

Bundesagentur für Außenwirtschaft, Servicestelle des Bundesministeriums für Wirtschaft und Technologie, URL: www.bfai.de (08-07-15).

European Bank for Reconstruction and Development, “15 years on the transition to open markets”, Working Paper, 2004, URL: http://www.ebrd.com/pubs/econo/6086b.pdf (08-04-15).

European Bank for Reconstruction and Development, URL: http://www.ebrd.com (08-07-10).

FiFo Ost, Eastern Europe Internet Review, “Kommissionsbericht (2002) zum Beitritt Sloweniens”, Economic Report, 2002, URL: http://www.fifoost.org/slowenien/EU_Slowenien_2002/node30.php (08-09-28).

Kalman, A., “Slowenien – Privatisierung ohne Ausverkauf”, commentary in the „Hessische Rundfund“, 2005, URL: http://www.hr-online.de/website/specials/wissen/index.jsp?rubrik=7308&key=standard_document_7097008

Kostourkov, E., “Employee Ownership in Bulgaria”, Working Paper, 2002, URL: http://www.efesonline.org/CEEEONet/REPORTS%202002/National%20Report%20Bulgaria%20EN.pdf (08-07-15).

The Bulgarian Privatization Agency, URL: http://www.priv.government.bg (08-07-22).
Transparency International, URL: http://www.transparency.org (08-09-02).

Appendix A - Curriculum Vitae

CHRISTOPH BRENNSTEINER

Tulpenstrasse 11
5204 Strasswalchen, Austria
E-Mail: christoph_brennsteiner@hotmail.com
Tel: +43 650 7465439

Date of birth: August 22nd, 1984
Citizenship: Austrian

Education

10/04 – 10/08	**MA International Business Administration** at the **University of Vienna, School of Business, Economics and Statistics,** specialized in Corporate Finance and Investment Analysis.
08/06 – 12/06	Study abroad at the **Aarhus Business University** (Denmark)
09/98 – 06/03	Commercial College Neumarkt/Wallersee, Austrian Matura with merits

Extra-Curricular Activities

Since 09/04	**Volunteer** and certified **Emergency Medical Technician** (EMT) for the *Samariterbund Salzburg*
05/07 – 10/08	Member of the **University Management Club** Vienna
06/07 – 10/08	Member of the **Club Salzburg**

Work Experience

06/08 – 09/08	**Internship**, Hedge Fund Investment Group, Private Wealth Management, *Deutsche Bank AG*, Frankfurt, Germany
02/08 – 03/08	**Portfolio Manager**, Private Banking and Asset Management, *Oberbank AG*, Linz, Austria
Since 09/07	**Portfolio Manager** at the Portfolio-Management-Program of the Institute of Capital Markets Research (cooperation *University of Vienna and ZZ Vermögensverwaltungs GmbH*, 2 years programme), Vienna, Austria
07/06 – 08/06	**Internship** at the *Salzburg Management Business School* (SMBS), Budgeting and Controlling, Salzburg, Austria

Skills

IT-Skills	Microsoft Office, Bloomberg, Datastream, HTML, JavaScript, SPSS
Languages	German, English (fluent), Spanish (good spoken and written), French (basics)

Interests and Hobbies

Sports	Marathon, Beach-Volleyball, Cycling,
Interests	Stock markets, Books, Movies

Appendix B - Abstract in German

Im Rahmen meiner Diplomarbeit erläutere ich die Entwicklung der Corporate Governance in Mittel- und Osteuropa während des Transformationsprozesses zur freien Marktwirtschaft. Dabei analysiere ich Themen, die zur Corporate Governance in unmittelbarer Relation stehen, wie z.B. die Veränderung der Eigentumsstrukturen, die aufgrund der Transformation von staatlichem Eigentum zu Privateigentum entstehen, oder die Entwicklung der rechtlichen Rahmenbedingungen für private Unternehmen.

Diese Arbeit gliedert sich einerseits in eine theoretische Komponente, bestehend aus den Kapiteln 1 bis 3, andererseits in eine empirische Studie, welche die praktische Relevanz des erstgenannten Teils verdeutlichen soll.

Basierend auf bereits vorhandener, einschlägiger Literatur behandelt Kapitel 1 die wesentlichen Merkmale der Corporate Governance. Kapitel 2 beschreibt den Prozess der Privatisierung in Mittel- und Osteuropa. Nach einem Review der weltweit wichtigsten historischen Aspekte der Privatisierung werden die Gründe und Ziele einer Transformation zur Marktwirtschaft erklärt. Das Kapitel wird durch eine Beleuchtung der unterschiedlichen Privatisierungsstrategien, die in Mittel- und Osteuropa verfolgt wurden, sowie einer Beschreibung der größten Herausforderungen, mit denen die Regierungen konfrontiert waren, vervollständigt. Kapitel 3 erläutert den gesamten Transformationsprozess und die damit verbundene Entwicklungen in Bezug auf Corporate Governance in den drei Ländern Bulgarien, Rumänien und Slowenien. Abschließend erfolgt eine Evaluierung der einzelnen Privatisierungsmethoden, die in den analysierten Ländern umgesetzt wurden.

Kapitel 4 umfasst den empirischen Teil dieser Arbeit. Dabei analysiere ich die Auswirkungen der Privatisierung auf die Eigentumsstrukturen der jeweils 50 größten Unternehmen in Bulgarien, Rumänien und Slowenien. Die Unternehmen wurden auf Basis ihrer Bilanzsummen ausgewählt und im Hinblick auf deren Veränderung in den Eigentumsstrukturen analysiert. Aussagekräftige Tabellen und Abbildungen werden im Verlauf dieses Kapitels illustriert. Dabei werden signifikante Ausprägungen, wie der Rückgang von Staatseigentum, die steigende Bedeutung von internationalen Investoren und die Entstehung von so genannten Unternehmenspyramiden verdeutlicht.