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Effects of Privatization of Industrial Enterprises in Bulgaria

Report on Empirical Research

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This book presents a report on the results of empirical research concerning the progress of privatization and its impact on the situation of privatized enterprises in Bulgaria. The survey was conducted in the framework of an advisory project "Support for Economic Reforms in Bulgaria", implemented by the CASE Foundation, Warsaw and financed by the Open Society Institute in Budapest.

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Contents

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Introduction

This Report presents the results of empirical research concerning the progress of privatization and its impact on the situation of privatized enterprises. The study is a part of the system of monitoring the processes of ownership transformations in the Bulgarian economy. The research was carried out in autumn 1998 by the Center for Economic Development (CED) in Sofia, the Agency for Economic Analysis and Forecasting (AEAF) in Sofia, and the Center for Social and Economic Research (CASE Foundation) in Warsaw. The research was a part of an advisory project "Support for Economic Reforms in Bulgaria", implemented by the CASE Foundation and financed by the Open Society Institute in Budapest. The research team consisted of: Julian Pankow (CASE) – project coordinator and research leader, Lubomir Dimitrov (AEAF) and Piotr Kozarzewski (CASE). Moreover, the following persons were involved in various stages of preparation and implementation of the project: Mariela Nenova (AEAF Director), Marinela Petrova (AEAF), Diana Hristozova (CED) and Boguslav Tatarevich (CASE). The fieldwork part of the research was completed in September and October 1998 by Vitosha Research company affiliated at the Center of the Study of Democracy in Sofia.

Two complementary research techniques were assumed to be applied in the study:

– first, interviewing members of the Boards of privatized enterprises (or, alternatively, the owners or their representatives);

– second, analyzing financial documents of enterprises, i.e. balance-sheets and profit-and-loss accounts.

The proposal of taking part in the research was directed to all industrial enterprises employing more than 100 persons, privatized by the end of 1996.

It was originally assumed that the analysis would cover at least medium-sized enterprises, employing not less than 300 persons. Following the preliminary verification of the list of enterprises with such size of workforce it turned out that their population would be too limited to determine correlations.

In accordance with international standards, a former state-owned enterprise is regarded as a privatized enterprise if the stake owned by the state does not exceed the value of one third of its assets. The criterion concerning the moment of privatization – by the end of 1996 – is justified by the fact that the time period between privatization and the moment of carrying out the research is, practically, not shorter than two years. On the one hand, this period is usually too short to conclusively determine the impact of privatization on the situation of the surveyed enterprises. This situation in the early post-privatization period is to a major extent conditioned by the enterprise's standing before privatization. Other factors which must be taken into account here are the charges involved with the purchase of the privatized entity and, as the results of the research indicate, additional commitments assumed by investors. On the other hand, the at least two-year period since the completion of the privatization scheme provides a reliable basis for identification of the at least fundamental trends and tendencies in the post-privatization situation of the surveyed enterprises.

Eventually, the adopted criteria were fulfilled by 104 enterprises. A positive response and a consent for interviewing was given by 53 enterprises. During verification of the returned questionnaires it turned out that in the case of one enterprise the privatization procedure had been stopped. Consequently, the analyzed sample consisted of 52 enterprises. The sample can be regarded as representative for the given category of enterprises.

The research involved the progress of privatization processes, their conditions and the impact of ownership transformations on the privatized enterprises. The primary aim of the research was to find correlations between the applied privatization methods and techniques, for the one part, and the ownership structure shaped as a result of privatization. Second, the research was to examine to what extent the capital structure and the control structure in the surveyed enterprises contributed to their modernization and restructuring. Third, the research was to examine the dynamics of interests in the privatized enterprises and their social and organizational situation. Fourth, the research was to provide data characterizing the economic and financial situation of the surveyed enterprises and its changes in the post-privatization period.

Chapter I presents an analysis of answers to the questionnaire entries concerning the procedures, progress and results of the processes of ownership transformations in the surveyed enterprises. It provides characteristics of the applied privatization methods and techniques, the ways and conditions of sales of state-owned enterprises. Changes in the ownership structure and in owners' control in the privatized enterprise have been analyzed.

Chapter II includes the results of studies of the processes of restructuring of the privatized enterprises. It provides analyses of adjustment, modernization and restructuring strategies applied in the surveyed companies. The main actors of restructuring processes are defined and so is their role in undertaking these processes. Apart from that, the Chapter contains an analysis of financial aspects of restructuring, in particular the dynamics of outlays and the sources of financing of restructuring projects.

Chapter III presents an analysis of answers to the questions concerning the impact of particular actors on the main fields of operation of the privatized enterprises. It examines the hierarchy of importance of main issues faced by the surveyed enterprises, from the point of view of their employees. Moods and attitudes among the companies' staff have been evaluated. The impact of privatization on particular fields of operation of the surveyed enterprises has been analyzed.

Chapter IV provides an analysis of selected aspects characterizing the economic and financial situation of the surveyed enterprises. The studies covered changes in profitability of the surveyed companies, changes in the level of employment, financial liabilities of firms, especially their debts, the structure and dynamics of sales by various categories of customers and well as the growth rate and changes in the geographical composition of exports.

Apart from cognitive objectives, the research also had its practical aim. The results of the research provide empirically verified arguments in discussions on the extent to which the adopted model of privatization contributes to the improvement of the functioning of enterprises covered by ownership transformations and, consequently, to the implementation of the program of structural reforms in the Bulgarian economy.

Summary

1. Transformation Procedures

All enterprises making up the analyzed sample have been transformed within the mainstream of privatization, i.e. by force of the "Law on transformation and privatization of state-owned and municipal enterprises". Besides, all of them have been covered as a whole by ownership transformation processes. Indirect privatization methods prevailed, with state-owned enterprises being first transformed into joint-stock companies (78 percent of the sample), or into a limited liability companies (12 percent). Only five state-owned enterprises (10 percent) have been sold directly, i.e. without prior commercialization.

Twenty six out of 52 surveyed enterprises (50 percent of the sample) have been covered by voucher privatization, while 36 enterprises (69 percent) have been covered by cash privatization. Both privatization techniques have been applied in the case of 10 enterprises.

As regards cash privatization, usually a major part of the privatized enterprise was sold against cash or against debt securities. On the average, it accounted for 71 percent of the value of shares (or stake). In only five cases it covered less than 50 percent of the value of shares of privatized enterprises. In the group of 36 enterprises covered by cash privatization, employee- or management buy-out was applied in 16 cases, negotiations with potential buyers in 14 cases, and a tender or auction in only 4 cases.

In most cases (28, i.e. 54 percent of the total) it was the Privatization Agency which came up with the privatization initiative, followed by the management of state-owned enterprises (17 cases, 33 percent), with ministries and central administration agencies ranked third (12 cases, 23 percent), enterprise employees fourth (8 cases, 15 percent), and other institutions and individuals ranked fifth and last (3 cases, 6 percent). In a quarter of all enterprises such an initiative was taken by two or more actors. In a vast majority of cases the decisions on launching privatization schemes were made by the Privatization Agency (43 enterprises, i.e. 83 percent of the sample). Seven decisions (13 percent) were made by the Ministry of Industry.

Privatization transactions concerning the surveyed enterprises started in 1994. Sometimes, several transactions were required to privatize one enterprise, as several techniques and sales to several buyers were involved. In the case of 15 enterprises (29 percent of the sample) only one transaction was concluded, while two transactions were involved in the case of 13 enterprises (25 percent), three transactions in 11 enterprises (21 percent), and five transactions in 5 enterprises (10 percent). Ownership transformations would usually take a long time (measured since the day of making the decision on transformation until the day of conclusion of the last transaction) – 20 months on the average. In half of all cases the transformations took above 18 months, while in 15 percent of the cases they took three years or longer. The domination of non-state ownership was achieved after 13 months, on the average, and in 15 percent of the cases after at least two years of transformations. Limited liability companies required the longest time for their transformation – 30 months on the average, of which 20 months for reaching the domination of private ownership. The relatively shortest time was required for sales without prior commercialization (11 and 14 months, respectively).

Cash was the main form of payment for privatized enterprises. In most cases, however, it was not the only form, as only 27 percent of enterprises of the analyzed group were paid for in cash, in the case of another 40 percent cash was one of several forms of payment, and 33 percent of enterprises were paid for without cash. As regards non-cash forms of payment, they mostly involved payment in privatization vouchers (37 percent of all enterprises) and in Zunc bonds (27 percent). Payments by installments were applied in 27 percent of enterprises.

Various commitments were made in the case of privatization of more than 70 percent of enterprises of the analyzed sample. Most frequently, these commitments were made in the form of packages containing two, three and sometimes four or five kinds of commitments. The requirement of maintaining the existing profile of production was imposed on almost three quarters of the surveyed enterprises. The periods during which profile of production was to be maintained were usually long – above three and sometimes even up to five years. Social commitments made in the process of privatization of almost two-thirds of the surveyed enterprises constituted the second-largest group. As much as 80 percent of social commitments concerned maintaining of the existing level of employment, in more than half of the cases in a relatively long time, i.e. five years. In some 30 percent of the cases the commitments concerned creation of new jobs. Also in some 30 percent of cases the investor made a commitment of maintaining employee benefits and the social infrastructure of the enterprise. Investment commitments, involving 60 percent of enterprises, were ranked third. The periods of investment commitments' implementation are relatively long, as in two-thirds of the cases they require five years, and the shortest ones take three years. In half of the surveyed firms strategic investors committed themselves to repay debts of the former state-owned enterprise. In all the analyzed cases such a commitment concerned a major part of the indebtedness, and in 90 percent of the cases it concerned the entire debt. Commitments involved with environmental protection were made in the privatization of only every fourth company.

The ownership structure of the surveyed enterprises shows very slow post-privatization changes. This inertia of the ownership structure is largely due to restrictions imposed on trade in titles, which have been included in statutes of 39 percent of firms. Such restrictions apply to two-thirds of enterprises transformed into limited liability companies, 40 percent of firms privatized without prior corporatization and, most importantly, one third of enterprises transformed into joint-stock companies. In 75 percent of companies covered by such restrictions there was no trading in company shares at all. In the entire sample there was no trading in 63 percent of companies.

High degree of ownership concentration in the surveyed companies is seen as a positive feature of their ownership structure. In 60 percent of firms the strategic investor owns more than 50 percent of shares. In 32 percent of firms the strategic investor owns more than two-thirds of the equity, which gives him full control over management. Only in 21 percent of firms the major investor alone has no impact on management, as he owns less than one third of the equity. In as much as 87 percent of companies the controlling interest is jointly held by not more than three largest investors, and in 91 percent of companies by not more than 10 investors.

Compared to other postcommunist countries, the "insiderization" of the process of ownership transformations is relatively insignificant. Despite considerable privileges enjoyed by the present and former employees of state-owned enterprises, they have not become the largest group of shareholders of the privatized company.

Four basic patterns of the ownership structure have emerged in the surveyed enterprises. The first and most common one (55 percent of companies) is characterized by domination of domestic outsiders in the ownership, of which 25 percent of firms are the investment funds and 30 percent are other domestic legal persons. The second pattern means domination of insiders, found in 21 percent of the surveyed enterprises. The third pattern means domination of foreign investors (12 percent) and the fourth lack of domination of any subject (12 percent).

The structure and personal composition of corporate governance bodies have not been fully formed. In the analyzed sample, 64 percent of enterprises represent a two-pillar (Anglo-Saxon) model of corporate governance, while the remaining 36 percent represent a three-pillar (continental model). The personal composition of Boards of Directors (or Supervisory Boards) does not fully reflect the ownership structure of companies. In more than half of companies, representatives of the founding authority of the former state-owned enterprise are members of the Boards of companies.

2. Restructuring

The simplest adjustment responses of enterprises involve sale of assets which are needless from their point of view. In only every seventh or eighth surveyed enterprise the process of selling out needless production assets has been completed. In more than a quarter of enterprises the sale of needless assets is in progress. Needless non-production assets have been sold in an even smaller percentage of enterprises (less than every tenth). The process of selling out needless assets has been generally poorly advanced. More than half of firms have not embarked on it at all, and in the case of non-production assets this has not been done by almost two-thirds of firms.

As regards cuts in all kinds of costs and improvement of the efficiency of utilization of the existing assets a vast majority of the surveyed enterprises only face the necessity of undertaking simple adjustment measures or are just implementing them. Substantial cuts in general costs were initiated by almost two-thirds of enterprises, but completed by less than one in six of them. A major reduction of material costs is being sought by not more than one third of enterprises, and cuts in energy costs by more or less half of all the surveyed enterprises.

The share of enterprises declaring a start or a completion of a major reduction of the level of employment is relatively small, but even so it should be seen as quite substantial, given the limitations in this field. In some 80 percent of companies, the investors assumed commitments of maintaining employment at the existing level or even creating new jobs.

One should note here the relatively large share of enterprises undertaking actions in the field of environmental protection. It is more than twice as high as the number of enterprises for which such commitments were envisaged in privatization transactions.

Almost all the surveyed enterprises maintained their profile of activities. This was the consequence of the fact that almost three fourth of them assumed such a commitment in the privatization contract. Under these conditions, most enterprises took up measures towards expanding the range of manufactured products. In more than half of enterprises technological changes have been initiated or implemented.

Management systems of the surveyed enterprises are also covered by restructuring. Almost two-thirds of companies undertook or completed changes to their organizational structures. These changes are usually not as deep as to lead to establishment of new entities, such as subsidiaries or profit generation centers. One should note the relatively limited scope for changes in the remuneration system of enterprises. Changes affecting the motivation system involved not more than half of the surveyed enterprises and were completed only in every fifth of them.

Substantial restructuring of privatized enterprises is usually involved with their reorientation from the traditional production-and-technology approach to a market-and-competition approach. This reorientation is reflected in working out marketing strategies. More than three thirds of the surveyed enterprises took up activities towards working out a marketing strategy and one enterprise in four has already developed such a strategy. The new marketing strategy is followed by taking up necessary investment projects. One-in-four surveyed company has already completed its investment scheme. More than 40 percent of enterprises are in the course of implementing investment projects. However, undertaking investments is not accompanied by sufficient acquisition of new sources of investment activity financing. Such efforts have been undertaken by only one third of enterprises, and only one-in-ten company has actually obtained new capital assets.

In 90 percent of the surveyed companies restructuring is largely dominated by the executive bodies of privatized enterprises. In more than one third of companies a major influence is also exerted by the owners through the General Assembly of Shareholders. In more than a quarter of enterprises the employees have a strong influence on their restructuring, while the role of trade unions is less significant. The involvement of consulting firms and banks in the restructuring of the surveyed companies is relatively small.

Generally speaking, the restructuring is accomplished by enterprises on their own, according to their own concepts and mostly with their own funds. This is mostly involved with the nature of restructuring measures being undertaken. These are mostly simple and rather superficial restructuring undertakings, which usually do not require vast outlays. Average restructuring outlays in the analyzed sample are low and declining in the early post-privatization period. The scope for restructuring undertakings is limited by the financial resources of companies. At the same time, the number of companies planning to finance the processes of restructuring has been dropping. This happens despite the fact that most of the surveyed enterprises regard restructuring as a longterm process or as a permanent activity. The obtained data indicate that this passive approach can be largely attributed to the shortage of funds for investment outlays' financing.

Almost half of the surveyed enterprises cover the restructuring costs entirely with their own means. Only occasionally, the capital increase of companies is applied as a source of funds for restructuring. Finding a strategic investor is equally rare as a method of providing funds for restructuring. Restructuring programs are very rarely financed with bank credits, as this source of financing is applied by only one sixth of the surveyed companies. None of the surveyed enterprises resorted to such forms of providing funds for restructuring as establishment of a joint-venture company or issuing bonds.

3. Dynamics of Interests

Both the privatization itself and the post-privatization processes are accompanied by a complex interplay of interests. It determines, to a major extent, the efficiency of restructuring processes and the effectiveness of managing privatized firms. The research proved the existence of a generally obvious dependence of the structure of control and power on the ownership structure shaped in the course of privatization. In reference to selected fields of companies' operation, the enterprise size is also of considerable relevance for the configuration of power and the interplay of interests.

In almost 90 percent of the surveyed enterprises, strategic management is vested in the executive bodies of enterprises – the Boards of Directors (or the Supervisory Boards and Management Boards wherever they exist). In almost one-in-four company the General Assembly of Shareholders has no influence at all on setting out the firms' objectives and the strategies for their accomplishment. Executive bodies also have the decisive impact on working out the marketing strategy of the surveyed companies and on decisions concerning their capital investment. A significant influence on investment decisions is exerted by the owners only in some companies with dominating foreign participation and in companies with scattered ownership structure.

In almost half of the companies, except some firms controlled by foreign investors, the owners have no influence on decisions concerning the profile of activities and the range of products, either. In most companies, the executive bodies have the power to make decisions on changes in the organizational structure. Nevertheless, in one-in-three company such changes are introduced with a significant or decisive participation of owners. The Boards of Directors or the Supervisory Boards and Management Boards have a major or even dominating influence on the price policy and business plans in more than three fourth of firms. In the remaining companies, mostly firms controlled by the Bulgarian capital, they are shaped by the owners.

The wage policy of the surveyed enterprises is conducted by the executive bodies, in some firms with the participation of trade union organizations. In a vast majority of companies, the overwhelming influence on setting the wages level is exerted by the Boards of Directors or, in the three-level structure of executive bodies, by the Management Boards and Supervisory Boards. In approximately one third of companies, mostly large firms, this influence is offset by a substantial or even overwhelming influence of trade unions. On the other hand, in one company out of four, especially in small companies, trade unions exert no impact at all on setting the wage level, or this impact is quite negligible. In most firms it is also the executive bodies of companies which have the final say about the compensation structure. However, in two-thirds of companies the employees also have a significant influence on deciding these matters.

As regards decisions concerning employment growth or cuts in employment, the impact of trade unions is relatively strong. In every second surveyed company it is regarded as at least quite strong. As a rule, the executive bodies (or, accordingly, the executive and control bodies). In approximately every fourth company, the General Assembly of Shareholders exerts influence on these decisions.

Decisive impact on setting the staff policy rules is apportioned between the executive bodies (or, accordingly, the executive and control bodies) and the General Assembly of Shareholders. The Boards of Directors or the Supervisory Boards and Management Boards exert overwhelming impact on the staff policy in two-thirds of companies. The General Assembly has a decisive impact in almost one quarter of companies. As regards the principles of compensation of the executive staff, the impact of owners is clearly increasing. In half of the companies this impact is at least considerable, and in 40 percent of them it is overwhelming.

In two-thirds of the companies their owners have the decisive influence on the distribution of profits. On the other hand, in almost one company out of five the General Assembly of Shareholders is considered to have no impact at all on the decisions on profit distribution. In almost one company out of three the executive bodies do not influenced in any way the distribution of profits.

As regards the hierarchy of importance of problems from the point of view of employees of the surveyed enterprises, the wage level was mentioned in the first place. The variation in wages was mentioned much less frequently as an important problem. Providing full-time jobs was ranked second in the hierarchy of importance. A considerable proportion of employees link their situation to the standing of enterprises. The firm's development prospects are of serious relevance for employees of above 60 percent of firms, while the economic and financial standing is of such relevance to employees of above 55 percent of firms. Social benefits and working conditions are of a similarly considerable importance for employees of the surveyed enterprises.

The problem of cuts in employment is of major significance for employees of almost half of the surveyed companies. The issue of reorganization is seen as definitely important by employees of some one third of firms. The distribution of profits is pointed to as an obviously important matter by employees of above 45 percent of the surveyed firms.

Privatization of the parent company is of considerable importance for employees of only one out of three surveyed companies, and is of no relevance or does not matter to employees of almost the same number of enterprises.

Promotion opportunities and the principles of appointing employees to executive posts are seen as definitely important to employees of one enterprise out of five, and as rather important to employees of almost 30 percent of firms.

In only one enterprise out of seven the participation of employees in management is regarded by them as a definitely important matter, while in more than a quarter of enterprises it is regarded as rather or quite unimportant.

As far as the evaluation of attitudes and moods among employees of the surveyed companies are concerned, positive characteristics prevail rather generally. In reference to employees of almost two-thirds of enterprises, confidence in successful development of the firm is the dominating characteristic. In almost 58 percent of enterprises, employee attitudes reveal striving at constructive activities. In above 55 percent of enterprises there are no labor disputes. In 58 percent of enterprises employees have the feeling of safety. Cooperation and competition are perceived to a similar extent. The feeling of safety is experienced mostly by the employees of these companies in which they own most of the equity. Nevertheless, employees of almost 30 percent of firms lack the feeling of safety. In only one-in-four enterprise employees show spirit of entrepreneurship. In almost 30 percent of enterprises they represent passive attitudes. Employees of almost 30 percent of the surveyed enterprises are troubled by uncertainty. In almost one enterprise out of five employees have the feeling of hopelessness, and in one enterprise out six the feeling of fear. Some forms of protests were recorded in one company out of six.

In one third of the surveyed enterprises it was stated that employee participation in ownership influenced employee attitude towards work, but in only one-in-nine company this influence was substantial. In slightly more than one third of companies the impact of employee participation in ownership did not matter. In less than a quarter of firms no such influence was the case.

As regards the impact of privatization on the main fields of operation of the surveyed enterprises, the positive assessments of the impact of privatization clearly dominate over negative ones. In reference to such issues as the decision-making autonomy, organizational structure, management system, staff policy, information system for the needs of management, firms' position on the market, relations with customers or marketing, the positive impact of privatization was stated in above 80 percent of firms. More than 70 percent of enterprises recorded positive impact of privatization on such fields of operation as the wage level and its correlation with labor productivity, employment structure and discipline of labor, relations with banks, diversification of production or management styles. Predominantly positive impact was to the major extent recorded in the companies controlled by insiders, while the negative impact prevails in firms controlled by Bulgarian outsiders.

In approximately 60 percent of the surveyed enterprises privatization had a positive influence on the variation in wages, raising of capital, profile of activities, degree of identification with the firm. According to those concerned, privatization had a relatively smaller impact on such fields as human relations (in 46 percent of firms), administrative intervention (in some 44 percent of enterprises) and external audits (in approximately 40 percent of firms).

4. Economic and Financial Standing of Companies

The obtained, unfortunately incomplete, data on the economic and financial situation of companies indicate that privatization involved largely sound and profitable firms, or firms able to improve their profitability in a relatively short time. A vast majority of the surveyed companies (more than 80 percent of those having released the data) reported positive profitability in the year of their privatization. Negative profitability in the year preceding privatization was reported by one out of five surveyed firms, in the year of privatization by one out of seven and in the year after privatization by one out of nine. In some 40 percent of privatized enterprises the profitability improved in comparison to the pre-privatization period, and in only some 10 percent of firms this profitability declined.

As regards the dynamics of sales, the companies having released the relevant data can be divided into three groups. The first group consists of companies whose sales declined in real terms over the analyzed period. In the year of privatization every fourth firm belonged to that category. In the first post-privatization year, the share of such companies increased to above 36 percent. The second group is made up of companies whose sales remained virtually unchanged. There were almost 22 percent of such companies in the year of their privatization. In the first post-privatization year their share declined to 9 percent. The third group covers companies reporting a rise in sales. They are in majority, and their share in the first post-privatization year rose slightly compared to the year of privatization and exceeded 54 percent.

In most of the surveyed enterprises the effectiveness of labor force utilization improved in the post-privatization period, as can be seen from the decline in the level of employment. Despite various commitments concerning the level of employment assumed in most privatization contracts, the employment in companies fell by 13 percent on the average.

The obtained data indicate that the privatization did not affect much the liabilities of the surveyed companies. In the post-privatization period neither the level of liabilities nor their structure showed any major changes. The average level of deferred liabilities declined, except the indebtedness to banks and to suppliers. Privatization did not have any major effect on the level and structure of the surveyed companies' receivables, either.

According to the available data, bank credits were granted to less than half of the surveyed companies. Credits to be repaid in less than twelve months accounted for almost two-thirds of all credits. In 1997, almost half of companies applied for bank credits, of which two-thirds were granted such credits. It can be seen from the analyses that firms having obtained credits in the past more often apply for new credits. Almost all the credits received were working-capital credits. This is an indication of financial liquidity problems faced by the surveyed companies. Difficulties with receiving credits, especially as regards guarantees, have an adverse impact on the ability of financing investment projects indispensable for enterprise modernization and restructuring.

Almost 85 percent of companies sell their products on foreign markets, with every second company exporting at least half of its output. Private trading companies and foreign customers are the main buyers of products sold by the surveyed companies. The share of direct consumers among the buyers is definitely low, although half of the companies manufacture consumer goods. The same refers to buyers being state-owned enterprises. Each of these categories of customers buys, on the average, only 5 percent of the surveyed firms' output. Two-thirds of companies export their products directly, and 20 percent through intermediaries. In the post-privatization period, the geographical composition of the surveyed enterprises' export has been significantly reoriented. The share of the Balkan Peninsula countries, the Central and Eastern European countries and the former USSR countries has been declining to the advantage of Western Europe and other parts of the world.

The export growth faces many barriers. First of all, the surveyed companies mentioned the growing prices of production inputs. The following hindrances to export growth include the increase in customs duties and tariffs and high international standards and quality requirements. Moreover, exports are limited by non-tariff barriers imposed in some areas, as well as by political conditions. Apart from poor quality of Bulgarian goods, the internal conditions hampering the growth of exports include their poor marketing and promotion.

Piotr Kozarzewski

Part I
Ownership Transformation Procedures and Results

This chapter presents an analysis of answers to the questionnaire entries concerning the procedures, progress and results of the processes of ownership transformations in the surveyed enterprises. It starts with characteristics of the applied privatization methods and techniques, the ways and conditions of sales of state-owned enterprises. Changes in the ownership structure and in owners' control in the privatized enterprise are analyzed in the following part of the chapter. Its final part includes major conclusions and recommendations concerning improvements in the process of privatization of state-owned enterprises.

1.1. Progress of Ownership Transformations

1.1.1. Privatization Methods and Techniques

The Bulgarian legislation provides for several methods of privatization of state-owned enterprises. Generally speaking, a state-owned enterprise may be privatized in two basic ways: after its prior transformation into a company (also referred to as corporatization or commercialization) its liabilities (shares) are put on sale, or the enterprise is privatized through sale of its assets without prior transformation. A state-owned enterprise (or its liabilities after transformation) may be sold as a whole or only in part. A state-owned enterprise may be privatized as an independent entity or may be contributed to a company with another investor (e.g. a foreign investor). Privatization of state-owned enterprises may be carried out within the mainstream of deetatization of the Bulgarian economy, or may follow as a result of liquidation (due to poor economic standing), restitution processes, etc. Apart from that, an enterprise (after prior corporatization) may be covered by the mass privatization program, under which all shares of a company or only a part thereof may be sold.

All enterprises in the analyzed sample have been transformed within the mainstream of privatization, i.e. by force of the "Law on transformation and privatization of state-owned and municipal enterprises". Besides, all of them have been covered as a whole by ownership transformation processes. Indirect privatization methods prevailed, with state-owned enterprises being first transformed into joint-stock companies (41 cases, i.e. 78 percent of the sample), or into a limited liability companies (6 enterprises, i.e. 12 percent). Only five state-owned enterprises (10 percent) have been sold directly, i.e. without prior commercialization.

Privatization through transformation into a joint-stock company and sale of shares involved mostly larger enterprises (in terms of the size of workforce), producing capital goods, as well as those producing raw materials and semi-products. At the same time, transformation into a limited liability company and direct sale of the enterprise without prior commercialization more often refer to smaller enterprises producing consumer goods and finished products. It should be noted here that all these three indicators (company size measured by employment, production of raw materials, semi-products/finished products and production of capital goods/consumer goods) are clearly interrelated: there is a positive correlation between the company size and production of raw materials or semi-products and the production of capital goods. In the heavy and machine-building, electronic and electrical, as well as chemical industries only privatization preceded by corporatization was applied, while in the textile and clothing and in the food-processing industries some state-owned enterprises were sold in a direct way [1] (see Table 1-1).

[1] Due to their limited number (three firms) and their excessively varying nature, enterprises fitting into the category "other branches" were omitted from all breakdowns by branch.

Table 1-1. Applied methods of transformation of the surveyed enterprises (percent)

Enterprise category	Transformation method		
	transformation into a joint-stock company	transformation into a limited liability company	direct sale of the entire enterprise
TOTAL	78	12	10
Branch (industry)			
1. Heavy and machine-building	82	18	–
2. Electronic and electrical	67	33	–
3. Chemical	100	–	–
4. Textile and clothing	84	8	8
5. Food-processing	62	15	23
Kind of production			
1. Capital goods	89	7	4
2. Consumer goods	75	13	12
Degree of processing			
1. Raw and base materials, semi-products	90	–	10
2. Finished goods	81	12	7
Number of employees			
1. Up to 300	68	16	16
2. 301-1000	79	16	5
3. Over 1000	93	–	7

We should note that privatization methods which are rather reserved for privatization of smaller enterprises are often applied to large enterprises. At the moment of privatization, all enterprises transformed into limited liability companies had more than 100 employees, of which three firms out of six had over 700 employees. Only one enter-

Table 1-2. Applied techniques of privatization of the surveyed enterprises (percent)*

Enterprise category	Privatization technique		
	cash	voucher	combined
TOTAL	69	50	19
Transformation method			
1. Transformation into a joint-stock company	64	57	21
2. Transformation into a limited liability company	67	33	–
3. Direct sale of the entire enterprise	100	20	20
Branch (industry)			
1. Heavy and machine-building	55	64	19
2. Electronic and electrical	67	67	34
3. Chemical	60	60	20
4. Textile and clothing	77	46	23
5. Food-processing	69	31	–
Kind of production			
1. Capital goods	52	74	26
2. Consumer goods	83	29	12
Degree of processing			
1. Raw and base materials, semi-products	50	70	20
2. Finished goods	71	49	20
Number of employees			
1. Up to 300	74	32	6
2. 301-1000	79	53	32
3. Over 1000	47	73	20

* The percentages do not add up to 100, as in many cases the categories of privatization techniques are applied in combinations

prise sold directly, without prior commercialization, had less than 100 employees, while one of such enterprises had as much as 1,000 employees.

Two basic privatization techniques are applied in Bulgaria. These are: voucher privatization (within the mass privatization program), when specially issued privatization vouchers are the means of payment for the purchased state property, and cash privatization, when money – the Bulgarian lev (BGL) or foreign currencies – is the means of payment. Both techniques can be used simultaneously. The latter is applied in several different ways. State property can be sold as a result of employee or management buy-out; through tenders or auctions; as a consequence of negotiations with potential buyers.

Twenty six out of 52 surveyed enterprises have been, in fact covered by voucher privatization (50 percent of the sample, although the first "wave" of mass privatization included two more i.e. 28 enterprises). During this "wave" the prevailing intention (60 percent of cases) was to sell more than two-thirds of shares of privatized enterprises, although several minority interests (usually 25 percent of shares) were also put on sale, along with two 50–66 percent stakes. Mass privatization involved larger stakes, especially in big enterprises, producing capital goods and products requiring further processing, while smaller stakes were offered mostly in small and medium-sized enterprises, producing consumer goods and final products. In virtually all the cases within the mass privatization program (94 percent of enterprises actually covered by the MPP), more than half of the planned number of shares was sold, and in 70 percent of cases this applied to all shares.

At the same time, 36 enterprises (69 percent) have been covered by cash privatization. Both privatization techniques have been applied in the case of 10 enterprises (19 percent of the sample).

Application of a given privatization technique or a combination of techniques was, to a major extent, dependent on the adopted method of transformation, branch, enterprise size and the kind of produced goods. As can be seen from the data presented in Table 1-2, in the case of direct sale of the enterprise, cash privatization technique was always applied. Additionally, in 20 percent of cases some enterprise assets were covered by voucher privatization. Combined techniques were never applied in the case of transformation of an enterprise into a limited liability company, while both privatization techniques were widely applied to enterprises transformed into joint-stock companies [2].

Cash privatization was relatively most commonly applied in the food-processing and textile-and-clothing branches, and least frequently in the heavy and machine-building industries. In the latter of these branches, except the electronic and electrical industry, voucher privatization was applied more frequently than in other branches. Combined techniques were common in all branches except food-processing.

Variation in the applied privatization techniques depending on the enterprise size and the kind of produced goods is very apparent. Cash privatization had the widest application in small and medium-sized enterprises and in those producing final and consumer goods. On the other hand, voucher privatization mostly involved large enterprises producing capital goods and products requiring further processing. Moreover, in the case of small enterprises employing less than 300 persons combined techniques were used very rarely.

Unlike voucher privatization, which often played a secondary role in the privatization of a particular state-owned enterprise, cash privatization was usually the basic sales technique. Wherever cash privatization was the case, a major part of the privatized enterprise (71 percent of shares, on the average) was sold against cash. In only five cases it involved less than 50 percent of the value of the enterprise's assets. Nevertheless, the role and significance of particular cash privatization methods showed differences. In the group of 36 enterprises covered by cash privatization, employee- or management buy-out was applied in 16 cases, negotiations with potential buyers in 14 cases, and a tender or auction in only 4 cases. In the case of 4 enterprises two methods were used simultaneously: employee buy-out and negotiations with potential buyers. As can be seen from the above, the competitive nature of most of the applied privatization methods was only limited.

The method of a buy-out of some shares (a stake) of the privatized enterprise was most apparently applied in two situations: more commonly (some two-thirds of cases), when insiders [3] intended to take over the control of the company, with large interests allowing to control the decision-making process in the firm and, much less often (some one-third of cases) when the employees and management took over a small part of the enterprise's assets as a form of "compensation" for their "consent for privatization". In the first case, a 51 percent or larger stake was involved, while in the other case this stake was limited to several or a dozen or so percent. Symptomatically, insiders never managed to buy out a 100 percent stake. Usually the remaining interest (often very small – less than 10 percent) was (or still is) held by the state.

[2] The mechanism of covering stakes in limited liability companies and some assets of non-commercialized enterprises by voucher privatization is not fully recognized, especially given the fact that by force of Art. 43 of the Privatization Law only joint-stock companies owned by the state are subject to voucher privatization.

[3] In this context the word "insiders" means persons working in the enterprise in contrast to "outsiders" – persons from outside the enterprise. Besides, the word insider has one more meaning reflect-ing the specific position of this group of persons and their advantage over outsiders, namely their being "well-informed persons".

Employee- and management buy-out was applied in the cases of transformation into a jointstock company and in direct privatization, but never in transformation into a limited liability company. As regards other specific features of the buy-out by insiders, it should be mentioned that this method involved mostly medium-sized enterprises (with 301 to 1,000 employees) in the textile-and-clothing industry, in enterprises producing low-processed goods. This method was relatively the least common in the food-processing branch, in the heavy and machine-building industry, as well as in the case enterprises producing final goods.

On the other hand, negotiations with potential buyers would lead to sales of large interests (40 to 100 percent), allowing the investor to control the company. Prior transformation into a joint-stock company was the basic form of privatization form here, but there were also single cases of transformation into a limited liability company or direct sale. Relatively most of the sales as a result of negotiations were accomplished in electronic and electrical, food-processing and chemical industry enterprises, as well as in firms producing final and consumer goods. Like in the case of insider buy-out, sales resulting from negotiations with potential buyers involved mostly firms with a medium level of employment. At the same time, they were the least common in heavy and machine-building industry enterprises, in firms producing raw materials and semi-products, and in the largest enterprises with over 1,000 employees.

As has been already mentioned above, the assets of only four enterprises were sold by tender or auction. The size of the sold interests amounted to 21, 25, 76 and 100 percent. In the first three cases it was the sale of shares of an enterprise transformed into a joint-stock company and in the last case the enterprise was sold as a whole, without prior commercialization. In three cases out of four enterprises produced capital and final goods; each firm represented a different branch: the heavy and machine-building, the chemical, the textile-and-clothing and the food-processing industries.

1.1.2. Initiators and Performers of Transformations

Various individuals and institutions, both within and outside the state-owned enterprise, may act as initiators of its privatization. Outside the enterprise, privatization initiatives can be put forward, first of all, by the Privatization Agency, ministries and central government agencies, as well as the local authorities. Inside enterprises, the main initiators were the management and employees.

As can be seen from the answers given by respondents, in most cases (28, i.e. 54 percent of the total) it was the Privatization Agency which came up with the privatization initiative, followed by the management of state-owned enterprises (17 cases, 33 percent), with ministries and central administration offices ranked third (12 cases, 23 percent), enterprise employees fourth (8 cases, 15 percent), and other institutions and individuals ranked fifth and last (3 cases, 6 percent). In the surveyed population of enterprises there was not a single case of a privatization initiative coming from the local authorities. In a quarter of all enterprises such an initiative was taken by two or more actors. The most popular combinations of initiators was the "insider" one i.e. the management and employees (4 cases) and the "central-outsider" one – the Privatization Agency with one of the ministries or central government offices (3 cases).

Due to the adopted criteria of the sample design, the Privatization Agency was the main initiator of privatization in almost all the surveyed breakdowns. However, it came up with most privatization initiatives in the case of organization of tenders and auctions (100 percent of cases), direct sales (80 percent), and privatization of food-processing enterprises (85 percent). In only two cases it was outranked, in both by the management of the state-owned enterprise (often supported by the employees): in the case of a buy-out of a stake by the employees (which is rather obvious) in the textile-and-clothing branch (where this form of cash privatization was the most common), and in the case of coming up with the initiative of privatization of enterprises in the heavy and machine-building industry. Ministries and central administration offices were largely interested in enterprise involvement in voucher privatization, in privatization of enterprises manufacturing electronic and electrical goods, capital goods and low-processed products.

In order to implement the privatization initiative, an appropriate state administration agency must make a formal decision on transformation procedures to be launched. In the analyzed sample, the decisions on launching privatization schemes were made in a vast majority of cases by the Privatization Agency (43 enterprises, i.e. 83 percent of the sample). Seven decisions (13 percent) were made by the Ministry of Industry, while the Ministry of Agriculture and another office, not specified precisely by the respondent, made one decision, each.

In all the categories of enterprises the Privatization Agency made a vast majority of privatization decisions, and in such categories as transformation into a limited liability company and direct sales, as well as staging tenders and auction it had an exclusive authority. The Ministry of Industry became actively involved in initiating privatization, especially as regards the transformation of enterprises into joint-stock companies, voucher privatization, employee- and management buy-out, as well as privatization of enterprises in the electronic and electrical, chemical and textile-and-clothing industries. The Ministry of Agriculture made a decision on privatization (through

Table 1-3. Initiators of privatization (percent)*

Enterprise category	Initiators of privatization				
	management	employees	Privatization Agency	ministries and offices	other institutions
TOTAL	33	15	54	23	6
Transformation method					
1. Transformation into a joint-stock company	33	14	50	24	7
2. Transformation into a limited liability company	33	1	50	33	16
3. Direct sale of the entire enterprise	20	40	80	1	1
Privatization technique					
1. Cash privatization	47	22	58	6	6
1 employee and management buy-out	75	44	31	1	6
1 tender/auction	1	1	100	1	1
1 negotiations with potential buyers	21	1	86	14	1
2. Voucher privatization	22	11	37	37	14
Branch (industry)					
1. Heavy and machine-building	36	9	27	27	27
2. Electronic and electrical	1	1	67	67	1
3. Chemical	40	20	60	30	1
4. Textile and clothing	54	23	39	15	8
5. Food-processing	8	8	85	15	1
Kind of production					
1. Capital goods	22	11	44	37	15
2. Consumer goods	42	21	63	8	1
Degree of processing					
1. Raw and base materials, semi-products	30	20	40	30	10
2. Finished goods	31	15	56	22	7
Number of employees					
1. Up to 300	37	16	58	21	1
2. 30111000	37	21	53	21	5
3. Over 1000	20	7	47	27	20

* The percentages do not add up to 100, as there could be several initiators of privatization

transformation into a joint-stock company within voucher privatization) of a food-processing enterprise. A similar decision was made by the "other office" in the machine-building industry (see Table 1-4).

In accordance with the regulations effective in Bulgaria, the office making the decision on privatization of a state-owned enterprise may authorize another institution to accomplish the privatization scheme. In the analyzed sample this was the case with 9 enterprises (17 percent). In four cases the Ministry of Industry authorized the Privatization Agency to carry out the privatization project. The Privatization Agency itself handed over its authority five times: twice to the Ministry of Industry, twice to other offices and once to the Ministry of Agriculture. Almost all such decisions concerned privatization upon prior transformation of a state-owned enterprise into a joint-stock company, except one, concerning direct sale. No other significant regularities were found. Hence, handing over of authority is practiced, but is not particularly common.

1.1.3. The Progress of Transformation

In the analyzed sample, March 1993 was the earliest date of starting up privatization, while August 1998 was the latest date, coming immediately before launching the fieldwork stage of the present research. Figure 1-1 presents the dynamics of starting up privatization procedures over time.

As can be seen from the above figure, most privatization decisions were made in 1994–1996 (15, 9 and 13, respectively). No time correlations concerning the application particular privatization methods can be established. At the same time, it can be clearly seen that particular basic privatization techniques – cash and voucher privatization – had different dynamics. In the analyzed sample, cash privatization started earlier and reached the "peak of popularity" earlier (in 1994) than voucher privatization, which was introduced later, so most procedures using this technique were launched in 1996 (see Figure 1-2).

Table 1-4. Institution making the privatization decision (percent)

Enterprise category	Institution making the privatization decision			
	Privatization Agency	Ministry of Industry	Ministry of Agriculture	other office
TOTAL	83	13	2	2
Transformation method				
1. Transformation into a joint-stock company	79	17	2	2
2. Transformation into a limited liability company	100	–	–	–
3. Direct sale	100	–	–	–
Privatization technique				
1. Cash privatization	92	8	–	–
– employee and management buy-out	88	12	–	–
– tender/auction	100	–	–	–
– negotiations with potential buyers	93	7	–	–
2. Voucher privatization	73	19	4	4
Branch (industry)				
1. Heavy and machine-building	82	9	–	9
2. Electronic and electrical	67	33	–	–
3. Chemical	78	22	–	–
4. Textile and clothing	77	23	–	–
5. Food-processing	92	–	8	–

Privatization transactions concerning the surveyed enterprises started in 1994. Sometimes several transactions were required to privatize one enterprise, as several techniques and sales to several buyers were involved. In the case of 15 enterprises (29 percent of the sample) only one transaction was concluded, while two transactions were involved in the case of 13 enterprises (25 percent), three transactions in 11 enterprises (21 percent), and five transactions in 5 enterprises (10 percent). Unfortunately, the data concerning 8 firms (15 percent of the sample) were not available to us. Every year the number of concluded transactions was growing. It reached its highest level in 1997 (44 transactions). Over 1998, by the time of carrying out the research (September), only 7 transactions were concluded in the surveyed population of enterprises (Figure 1-3). This may mean that in most of the surveyed enterprises privatization was regarded as completed. Indeed, in above 90 percent of companies more than 50 percent of shares were sold.

Ownership transformations would usually take a long time (measured since the day of making the decision on transformation until the day of conclusion of the last transaction) – 20 months on the average. In half of all cases the

Figure 1-1. Dynamics of starting up privatization procedures

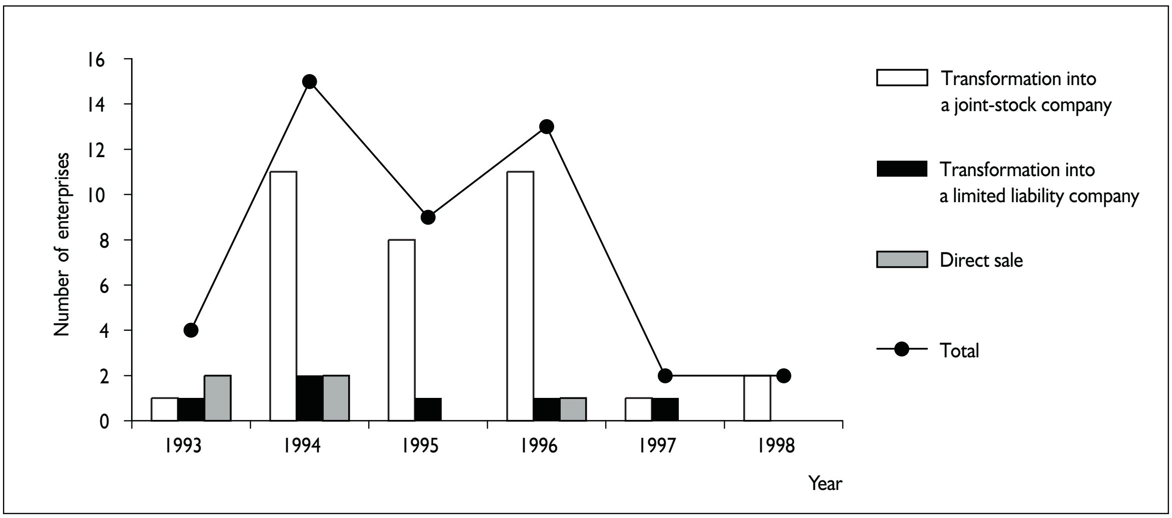
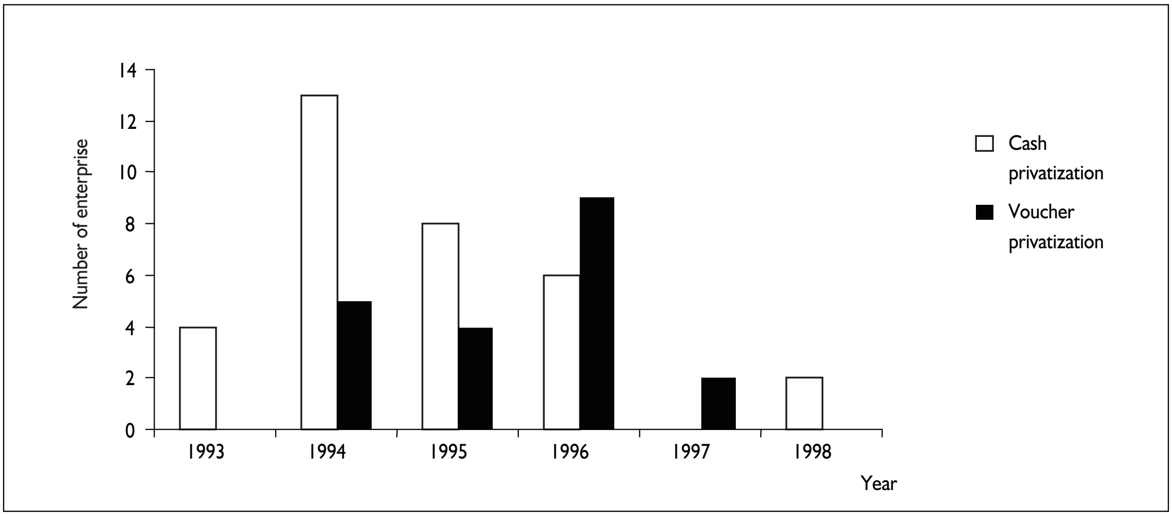


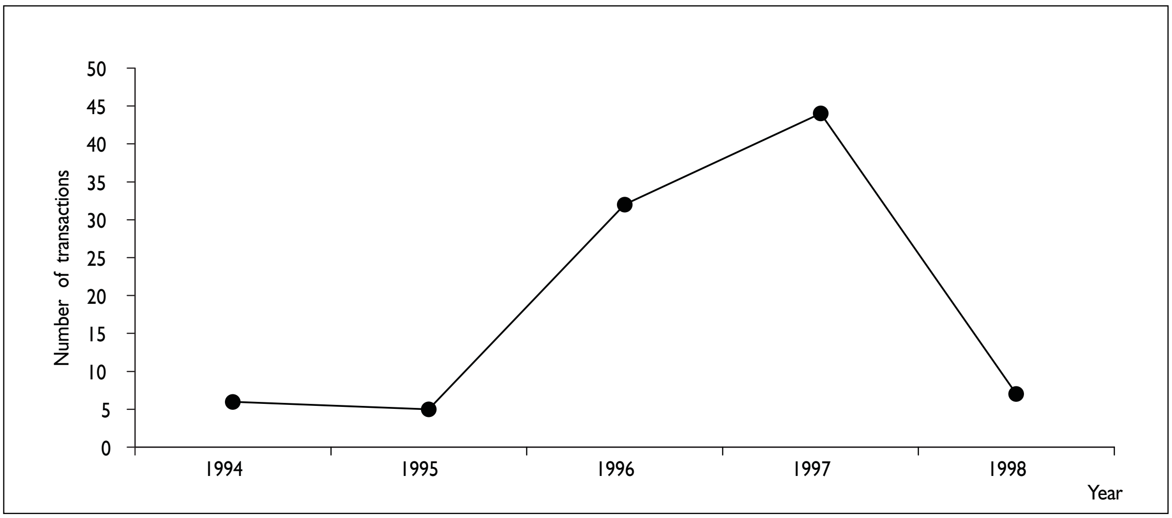
Figure 1-2. Dynamics of cash privatization and voucher privatization in the analyzed sample of enterprises



transformations took above 18 months, while in 15 percent of the cases they took three years or longer. The record-long privatization time took four years. However, in many firms the domination of non-state ownership was achieved earlier than that (after 13 months, on the average), but even so in half of the companies only after 12 months since the date of making the decision, and in 15 percent of the cases after at least two years of transformations. Limited liability companies required the longest time for their transformation – 30 months on the average, of which 20 months for reaching the domination of private ownership. The relatively shortest time was required for sales without prior commercialization (11 and 14 months, respectively). The length of the privatization process is, in fact, not involved with the application of a particular privatization technique. It only can be seen that the enterprises covered by voucher privatization were getting transformed at a faster rate than those covered by cash privatization and that sales involving tenders and auctions contributed to a longer transformation period. Transformations involved with the entry of a foreign investor acquiring a large (40 percent or more) stake would take a shorter time. Generally, transformations of enterprises producing raw materials and semi-products required less time than those of firms manufacturing final goods. Transformations in the heavy and machine-building, chemical, electronic and electrical industries stake would take a longer time than average, while those in the food-processing industry would take a shorter time (see Table 1-5).

Nevertheless, in view of the lack of clear and unequivocal correlations it can be reasonably stated that the major

Figure 1-3. Number of concluded privatization transactions



factors on which the duration of transformations depends should be looked for elsewhere and are of a different nature in each particular case. This refers, primarily, to the attractiveness of particular entities for particular investors and other forces involved in transformations, the degree in which they are interested in quick completion of privatization procedures, the efficiency of bureaucratic mechanisms in each individual case, etc.

It should be noted here that the presented data are inaccurate. First, in a number of firms the transformations have not been completed (for example, in five enterprises the stake owned by the state is still higher than one-third of the value of equity). Second, the data concerning the progress of transformations are incomplete: information about approximately a quarter of the sample of the surveyed enterprise is not available, and one third of the obtained information on concluded transactions is not consistent with the data on the ownership structure at the moment of carrying out the research (the former usually quote lower figures, as the data concerning some transactions have not been obtained yet).

1.1.4. Forms of Payment

Cash was the main form of payment for privatized enterprises. In most cases, however, it was not the only form, as only 27 percent of enterprises of the analyzed group were paid for in cash, in the case of another 40 percent cash was one of several forms of payment, and 33 percent of enterprises were paid for without cash (see Table 1-6). Obviously, the way of making payments for the sold entities was closely related to privatization methods and techniques. Cash and partly-cash forms of payment dominated in the case of firms covered by cash privatization, while in the case of enterprises covered by voucher privatization, exclusively non-cash forms of payment were

Table 1-5. Duration of transformation – since the date of making the decision on privatization of an entity (percent)

Enterprise category	Duration of transformation: by achieving domination of non-state ownership – up to 12 months	by achieving domination of non-state ownership – above 12 months	by concluding the last privatization transaction – up to 18 months	by concluding the last privatization transaction – above 18 months
TOTAL	54	46	48	52
Transformation method				
1. Transformation into a joint-stock company	52	48	47	53
2. Transformation into a limited liability company	50	50	25	75
3. Direct sale	75	25	75	25
Privatization technique				
1. Cash privatization	48	52	43	46
– employee and management buy-out	50	50	50	50
– tender/auction	33	67	33	67
– negotiations with potential buyers	55	45	50	50
2. Voucher privatization	47	53	53	47
Branch (industry)				
1. Heavy and machine-building	33	67	43	57
2. Electronic and electrical	–	100	–	100
3. Chemical	37	63	25	75
4. Textile and clothing	55	45	36	64
5. Food-processing	89	11	78	22
Kind of production				
1. Capital goods	50	50	47	53
2. Consumer goods	55	45	45	55
Degree of processing				
1. Raw and base materials, semi-products	71	29	71	29
2. Finished goods	48	52	41	59
Foreign strategic investor				
1. Absent	52	48	45	55
2. Present	67	33	57	43

applied in more than half of them. Purely "non-cash" forms of payment were not applied at all to enterprises sold without prior corporatization, while purely "cash" transactions prevailed. In the case of sale of corporatized enterprises, the shares of joint-stock companies were more often sold exclusively against cash than the stakes in limited liability companies.

"Non-cash" forms of payment were particularly often applied in the heavy and machine-building as well as chemical industries. At the same time, they were the least common in the food-processing industry. Interestingly, there are very apparent interrelationships between the form of payment on the one hand, and the enterprise size and the kind of produced goods on the other. "Non-cash" forms of payment clearly dominate in the case of the largest enterprises with above 1,000 employees, and producing capital goods. Their role is less significant in reference to smaller enterprises and almost quite negligible in enterprises producing consumer goods (similar, but less apparent correlations have also been found in a breakdown into firms producing goods of various degree of processing). These correlations are not entirely conditioned by the application of different privatization methods and techniques in the case of the mentioned categories of firms. It can be assumed that privatization institutions' policy towards enterprises within the mentioned categories also played a major role here.

As regards non-cash forms of payment, they mostly involved payment in privatization vouchers (37 percent of all enterprises) and in Zunc bonds (27 percent). Payments by installments were applied in 27 percent of enterprises. Other forms were rather uncommon: Brady bonds were applied only in the case of 4 companies, while an inexplicitly precised "other form" was applied in one company (jointly making out 10 percent). There were no cases of a lease of assets, at all. In a quarter of all the surveyed enterprises several forms of payment were involved, the most familiar combination being that of privatization and Zunc bonds.

A vast majority (86 percent) of "voucher" forms of payment (with all kinds of vouchers entailed) accounted for 50 and more percent of the privatized assets. When applied, privatization vouchers covered 68 percent of the amount due, on the average. It should be mentioned that only in one such enterprise out of five less than half of the amount due was paid in privatization vouchers, while in one enterprise out of four the entire amount was paid in vouchers. In the case of three-fourths of all situations when Zunc bonds and Brady bonds were in use, they covered at least 50 percent of the value of privatized assets.

Table 1-6. Forms of payment in privatization of the surveyed enterprises (percent)

Enterprise category	Form of payment		
	only cash	partly cash	no cash
TOTAL	27	40	33
Transformation method			
1. Transformation into a joint-stock company	24	39	37
2. Transformation into a limited liability company	17	50	33
3. Direct sale	60	40	–
Transformation technique			
1. Cash	36	53	11
2. Voucher	8	34	58
Branch (industry)			
1. Heavy and machine-building	9	27	64
2. Electronic and electrical	67	–	33
3. Chemical	22	33	44
4. Textile and clothing	23	54	23
5. Food-processing	39	46	15
Kind of production			
1. Capital goods	15	27	57
2. Consumer goods	38	54	8
Degree of processing			
1. Raw and base materials, semi-products	10	50	40
2. Finished goods	30	38	32
Number of employees			
1. Up to 300	42	42	16
2. 301–1000	21	47	32
3. Over 1000	14	29	57

Much more rarely the privatized assets were paid for by installments. Payments were usually were made in five or ten years (in a half and a quarter of enterprises paid for by installments, respectively).

1.1.5. Investors' Commitments

When buying privatized entities (as a whole or large stakes in them), apart from making due payments the investor is often obliged to assume some commitments. Among other things, these commitments may concern making investments in the enterprise, its profile of production, social benefits, environmental protection, etc. Various commitments were made in the case of privatization of more than 70 percent of enterprises of the analyzed sample. Such a large scope for commitments was rendered possible by the fact that strategic investors emerged immediately in the course of privatization. Nevertheless, the sample also included cases in which investors' commitments were made in companies with a major part of shares sold within the mass privatization program, hence individual strategic investors could only hope for minority interests. In such companies majority interests could only be held by investment funds. In this context, the situation looks strange. While in the case of investment commitments such an approach can be justified, in the case of commitments concerning e.g. maintaining the profile of production the commitments made by a minority shareholder may well prove impossible to fulfill due to possible objections of other owners.

The analysis of data presented in Table 1-7 allows to suspect that the institutions in charge for implementation of privatization schemes were trying to impose on investors additional commitments whenever this was technically feasible. The scope for commitments was clearly smaller in these categories of enterprises which were mostly involved by mass privatization, i.e. especially in large heavy and machine-building industry enterprises, as well as firms manufacturing capital goods and products requiring further processing. This is also a confirmation of the fact that at least one kind of commitments can be found in 100 percent of companies in which ownership has been concentrated in the hands of insiders and foreign investors (mostly individuals), and that commitments are much less common in the case of dispersed ownership and domination of domestic outsiders (the latter include many investment funds). Most frequently, these commitments were made in the form of packages containing two, three and sometimes four or five kinds of commitments.

The burden of commitments imposed on investors usually adversely affects the attractiveness of privatized entities, in particular impairing sales of firms recording poor economic performance and not anticipating sizable profits in the future. As can be seen from the collected data, the sample included largely enterprises which at the moment of privatization enjoyed a relatively good economic condition. This can be seen from their profitability: according to incomplete data, at the moment of privatization only 14 percent were not bringing profits, while above 60 percent of firms were recording gross profitability of more than 5 percent.

The requirement of maintaining the existing profile of production was the most controversial one among all the recorded kinds of commitments, due to its anti-market nature. It was recorded in almost three-quarters of the surveyed enterprises, including all limited liability companies, all enterprises sold without prior corporatization, as well as in all firms sold as a result of negotiations with potential buyers. The periods during which profile of production was to be maintained were usually long – above three and sometimes even up to five years. In this category of companies there are two with investment funds being strategic investors with more than 50 percent stakes.

Social commitments made in the process of privatization of almost two-thirds of the surveyed enterprises constituted the second-largest group. Only in companies with ownership domination of insiders this commitment had a 100 percent incidence. As much as 80 percent of social commitments concerned maintaining of the existing level of employment, in more than half of the cases in a relatively long time, i.e. five years or longer. Most frequently, the commitment of adopting long job protection periods were assumed by insiders-investors and by foreign investors. In some 30 percent of the cases, the commitments concerned creation of new jobs. Also in some 30 percent of the cases, the investor made a commitment of maintaining employee benefits, like free dinners, medical care, etc. The cases of commitments of maintaining the social infrastructure of the enterprise (kindergartens, holiday facilities, etc.) were almost equally numerous. There were also single cases of commitments in the field of wages and the extent of cuts in employment. In some 40 percent of cases the investor assumed more than one social commitment.

The category of commitments giving rise to very little controversy and finding unanimous support in various "factions" of reformers is ranked only third. These are investment commitments. In the entire sample such commitments involved 60 percent of enterprises, including all companies with ownership domination of insiders and foreign investors.

The periods of investment commitments' implementation are relatively long, as in two-thirds of the cases they require five years, and the shortest ones take three years. Changes of the implementation periods were very rare – only three cases of an appropriate clause added later to the privatization contract were recorded (i.e. they were introduced in every tenth company covered by investment com-

Table 1-7. Investors' commitments (percentage of enterprises of a given category in which such commitments exist)

Enterprise category	Kind of commitments				
	invest-ment	social	maintaining of production profile	environ-mental	taking over debts
TOTAL	60	64	73	25	50
Transformation method					
1. Transformation into a joint-stock company	54	59	66	17	44
2. Transformation into a limited liability company	83	83	100	67	83
3. Direct sale	80	80	100	40	60
Privatization technique					
1. Employee and management buy-out	75	88	94	25	69
2. Tender/auction	50	50	50	50	50
3. Negotiations with potential buyers	93	86	100	14	71
Branch (industry)					
1. Heavy and machine-building	36	36	55	9	27
2. Electronic and electrical	67	67	67	33	67
3. Chemical	67	67	78	22	56
4. Textile and clothing	54	69	77	31	54
5. Food-processing	69	77	77	39	54
Kind of production					
1. Capital goods	42	46	62	19	42
2. Consumer goods	75	83	83	33	58
Degree of processing					
1. Raw and base materials, semi-products	40	50	60	20	50
2. Finished goods	63	68	75	28	50
Number of employees					
1. Up to 300	68	68	74	26	47
2. 301-1000	74	74	84	26	68
3. Over 1000	29	43	57	21	28
Ownership structure					
1. Dispersed	33	67	83	67	33
2. Domination of insiders	100	100	100	36	73
3. Domination of domestic outsiders	41	45	55	14	38
4. Domination of foreign investors	100	83	100	17	83

mitments). In all these cases the implementation period was extended to five years.

In half of the surveyed firms strategic investors committed themselves to repay debts of the former state-owned enterprise. In all the analyzed cases such a commitment concerned a major part of the indebtedness, and in 90 percent of the cases it concerned the entire debt. The debt repayment commitment usually involved companies in which strategic investors were obliged to accept the entire package of commitments. Hence, like in the case of other commitments, debt repayment pledges were relatively more frequently made in the case of privatization through transformation into a limited liability company and through direct sale, in the case of a buy-out by insiders and sale to a selected investor, as well as in firms producing consumer goods, in medium-sized enterprises, and with ownership domination of foreign investors or insiders. At the same time, debt repayment commitments were the least common in enterprises in which privatization institutions had limited opportunities of imposing such commitments on investors, i.e. first of all in the heavy and machine-building industry and in firms with dispersed ownership or with domination of domestic outsiders (i.e. mostly investment funds).

Nevertheless, the assumption of this was usually not attributable to difficult economic situation of the privatized entity. As can be seen from the (unfortunately incomplete) data on economic performance of the surveyed firms at the moment of carrying out privatization schemes, debt repayment commitment in the group of loss-making companies (4 firms) was found in only one of them. At the same time, in the group of profit-making companies such a commitment was assumed in more than half of the cases, i.e. in 16 firms out of 29. Hence, the analyzed commitment was made mostly in the enterprises in which it could be imposed on investors, i.e. also in profit-making companies rather than in the firms in which it was most needed.

Commitments involved with environmental protection were "ranked" last among investors' obligations. They were assumed in the privatization of only every fourth company. Most probably, this commitment is assumed along the same rules as all other commitments, which means that investors were only rarely compelled to invest in environmental protection of such "polluter" branches and the heavy and machine-building industry, as well as the chemical industry. Most apparently, according to the institutions in charge of privatization the issue of environmental protection was of secondary importance and worth sacrificing for other commitments, especially in the case of sales of privatized assets to foreign investors who are "in the forefront" of assuming all other commitments.

1.2. Results of Privatization: the Structure of Ownership and Control

1.2.1. Ownership

The sense of privatization is not confined to transfer of ownership rights, but it also means establishment of new relations in the economy, in which microeconomic decisions are made in the interest of non-anonymous owners. Hence, finding a real and effective owner for assets formerly held by the state is one of the major objectives of privatization. Nevertheless, in many post-communist countries either the significance of this objective has been (and still remains) underestimated, or its fulfillment encounters serious difficulties. Leaving aside delays in privatization, it should be noticed that this situation contributes to two basic distortions of the ownership structure: excessive dispersion of ownership and excessive share of insiders in the ownership of privatized enterprises. Problems also emerge during the post-privatization re-distribution of ownership – its concentration and "taking out of the enterprise" usually face tremendous difficulties. Fortunately, at least in the analyzed sample similar distortions are of a secondary, or even marginal relevance.

The analysis of the ownership structure of the surveyed enterprises allowed to distinguish its three specific features.

The first feature is the relatively insignificant "insiderization" of the process of ownership transformations, at least in the analyzed sample (i.e. enterprises with a very serious degree of deetatization). Insiders, despite considerable privileges enjoyed by the present and former employees of state-owned enterprises, do not become the largest group of shareholders of the privatized company. The largest category is formed by domestic outsiders, consisting of private legal persons and investment funds.

The second feature is associated with very slow changes in the ownership structure after privatization. Although some processes typical of post-privatization changes in many post-communist countries can be found, such as declining shares of the state and of insiders in the ownership structure coupled with a simultaneous rise in the share of outsiders (both domestic and foreign), these changes are of only marginal significance in most cases. The only apparent trends are the decline in the share of the state and the increase in the share of domestic outsiders, largely due to the increased share of investment funds.

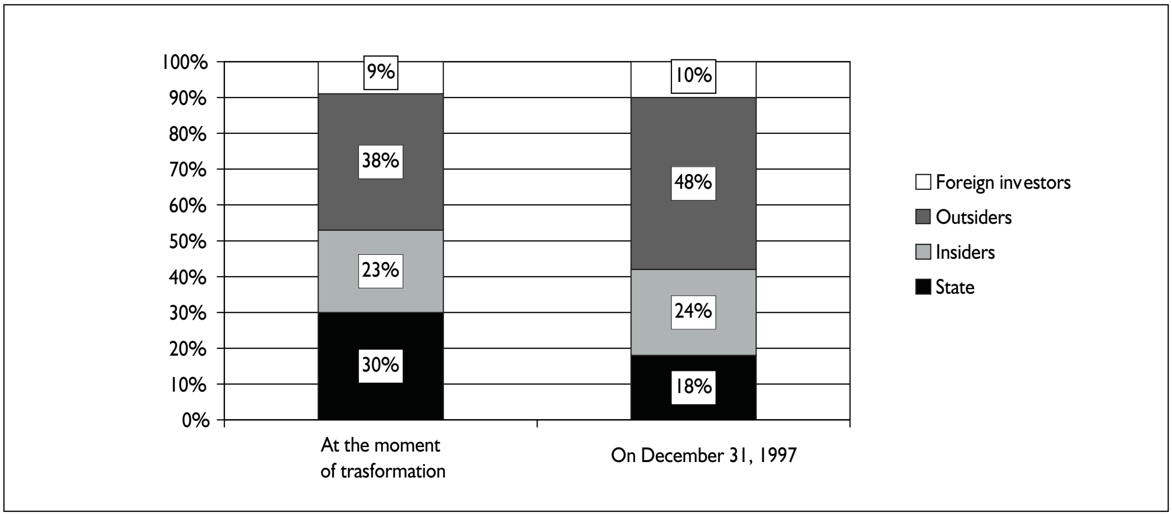
The inertia of the ownership structure of the surveyed enterprises becomes even more conspicuous in an attempted analysis of changes in the dominating category of owners (holding 50 percent or more shares) in particular firms. Namely, only three cases of such changes were found, all of them involving liquidation of the state's dominating position. The changes went in all the three possible directions: in one

Table 1-8. Ownership structure of the surveyed sample of enterprises (percent)

Category of shareholders	At the moment of privatization	On December 31, 1997
1. State	30	18
2. Local investors – natural persons	2	3
3. Local investors – legal persons (excl. investment funds)	21	23
4. Investment funds	11	19
5. Present and former employees of the enterprise under provisions of Art. 5, Par. 2 of the privatization law*	20	20
6. Other natural persons employed in the enterprise	3	4
7. Foreign investors – natural persons	0	0
8. Foreign investors – legal persons	9	10
9. Other	4	3

* Art. 5, Par. 2 of the privatization law specifies the categories of present and former employees of the state-owned enterprise entitled to participation in its privatization on preferential terms

Figure 1-4. Ownership structure of the surveyed sample of enterprises in a breakdown into basic categories of owners (percent)



enterprise it was insiders who got the upper hand, in another one it was a domestic outsider, and in yet another one it was a foreign investor [4]. This means that in the remaining enterprises the only possible change was the further strengthening of the position (measured by the number of titles held) of these categories of owners who had already attained a dominating position as a result of the first stage of privatization of the enterprise.

Considerable inertia of the ownership structure of the surveyed enterprises is largely due to restrictions imposed on trade in titles, which have been included in statutes of 39 percent of firms. Such restrictions apply to two-thirds of enterprises transformed into limited liability companies, 40 percent of firms privatized without prior corporatization and, most importantly, one-third of enterprises transformed into joint-stock companies. Imposing restrictions on trading in shares contradicts the very idea of a joint-stock company. Nevertheless, in most post-communist countries there was, and still is, a form of a joint-stock company requiring a consent of the General Assembly of Shareholders for trading in shares. In Bulgaria, this form was most probably particularly popular in the early years of implementation of privatization programs; in the analyzed sample restrictions were introduced to most statutes of firms transformed in 1993–1995, while in 1996–1998 only single cases were recorded.

A slow-down in the trading in shares was one of the consequences of restrictions imposed on this trading. This found its reflection also in the analyzed sample: in 75% of companies covered by such restrictions there was no trading in company shares at all. In the entire sample there was no trading in 63 percent of companies.

The basic aim of restrictions is providing the present shareholders with instruments of control over the movement of shares, safeguarding titles from being acquired by "unauthorized persons" and creating conditions for shaping the degree of ownership concentration in the company. Restrictions on trading in shares protect, first of all, the interests of insiders. Relevant provisions refer to 56% of enterprises covered by employee buy-out and 64% of enterprises controlled by insiders. In firms subject to restrictions only insider were able to increase their stakes. Virtually no outsider was in a position to do it (except one foreign investor, who immediately acquired a controlling interest.

It is also interesting that almost all firms controlled by foreign investors are also subject to restrictions on trading in titles. This seems strange, as foreigners usually acquired very large stakes and did not need such "safeguards". The only reasonable explanation here may be that foreign investors in a way "inherited" these restrictions with shares of companies. Namely, in the analyzed sample most transactions with the participation of foreign investors occurred in the early years of privatization in Bulgaria.

No wonder then that high degree of ownership concentration is the **third characteristic feature** of the ownership structure of the surveyed enterprises. In 60 percent of firms the strategic investor owns more than 50 percent of shares. In 32 percent of firms the strategic investor owns more than two-thirds of the equity, which gives him full control over management. Only in 21 percent of firms the

[4] On the basis of indirect evidence it may be assumed that in the surveyed population there was one, or even two more companies, in which foreign investors took over ownership control only after privatization. This, however, does not affect the general conclusion suggesting that the ownership structure in the analyzed sample was characterized by considerable inertia.

major investor alone has no impact on management, as he owns less than one-third of the equity. In as much as 87 percent of companies the controlling interest is jointly held by not more than three largest investors, and in 91 percent of companies by not more than 10 investors [5].

Four basic patterns of the ownership structure have emerged as a result of transformations of the surveyed enterprises. The first and most common one (55 percent of companies) is characterized by domination of domestic outsiders in the ownership, of which 25 percent of firms are the investment funds and 30 percent are other domestic legal persons. The second pattern means domination of insiders, found in 21 percent of the surveyed enterprises. The third pattern means domination of foreign investors (12 percent) and the fourth lack of domination of any subject (12 percent). Table 1-9 presents the distribution of domination patterns in particular categories of the surveyed enterprises.

1.2.1.1. Domestic External Investors (Domestic Outsiders)

Domestic outsiders are represented as investors in 85% of the surveyed enterprises. Within the whole sample, this is the only group which substantially increased its "possessions" in the post-privatization period – from 38% to 48% of shares, on the average. Two-thirds of investors in this group own controlling interests. It should be noticed that this group consists of three sub-groups. The most numerous one, represented in 48% of the surveyed enterprises, is made up of investment funds, which acquired shares large-

Table 1-9. Ownership structure patterns in the surveyed enterprises (percent)

Enterprise category	Ownership structure patterns			
	dispersed	domination of insiders	domination of domestic outsiders	domination of foreign investors
TOTAL	12	21	55	12
Transformation method				
1. Transformation into a joint-stock company	12	24	54	10
2. Transformation into a limited liability company	17	–	67	16
3. Direct sale	–	20	60	20
Privatization technique				
1. Cash privatization	11	31	42	16
– employee and management buy-out	6	56	25	13
– tender/auction	25	25	50	–
– negotiations with potential buyers	–	–	57	43
2. Voucher privatization	11	16	69	4
Branch (industry)				
1. Heavy and machine-building	9	18	73	–
2. Electronic and electrical	–	–	33	67
3. Chemical	11	33	56	–
4. Textile and clothing	15	31	46	8
5. Food-processing	15	8	62	15
Kind of production				
1. Capital goods	12	15	65	8
2. Consumer goods	12	29	46	13
Degree of processing				
1. Raw and base materials, semi-products	10	20	70	–
2. Finished goods	12	23	52	13
Number of employees				
1. Up to 300	11	21	63	5
2. 301-1000	–	32	47	21
3. Over 1000	29	7	57	7

[5] In the population of 47 companies having released the appropriate data. As regards the remaining five companies in at least two of them we can reasonably expect domination of one (foreign) owner, while in two more companies the insider is likely to be the dominating investor.

ly during the implementation of the mass privatization program. Wherever the investment fund acts as investor, it owns 39% of shares, on the average. The slightly less numerous sub-group of domestic investors – legal persons not being investment funds (represented in 38% of the surveyed enterprises) is characterized by a much stronger tendency towards ownership concentration. Wherever these persons were investors, their share in ownership amounts to 59%, on the average. The third sub-group consists of natural persons. Although they own shares in 33% of the surveyed enterprises, their "possessions" account for only 3% of the entire sample. External investors being natural persons do not own the controlling interest in any company.

Domination of domestic outsiders was most common in enterprises transformed through voucher privatization. This was the consequence of the operation of investment funds. Usually, the fund was the only strategic investor and owned 50% of the company's shares. The investors – domestic legal persons, would more frequently own controlling interests in firms covered by cash privatization. There were 60% of such investors. Consequently, domestic outsiders accounted for a major part of the privatized assets fitting into various categories by branch, type of product, etc. However, the fact that investors being investment funds outnumbered other outsiders – domestic natural persons, contributed to an apparent ownership domination of domestic outsiders in the categories of enterprises covered mostly by mass privatization.

1.2.1.2. Investors Working in the Company (Insiders)

On the average, insiders own 24% stakes in the surveyed enterprises and act as investors in 79% of companies. The degree of ownership concentration in the hands of insiders is much lower than in the case of domestic outsiders. Moreover, insiders much more rarely own controlling interests (only in one-third of enterprises in which such a category of investors is represented). The group of insiders is not homogeneous, as it consists of top management staff, middle- and lower-level management staff and rank-and-file employees. According to the end- of-1997 data, top management staff accounted for 39% of the "insider stake", other management staff for 12% and rank-and-file employees for 49%. High ownership concentration in the hands of any of these sub-group is found rather rarely – in 10% of companies (in all of them top management staff owns above 50% of shares). There are twice as many companies in which the controlling interest is owned by the whole management – from the top to the lower level. But scattered ownership in its pure form (more than 50% of shares owned by rank-and-file employees) is also found rarely – in 8% of the surveyed firms. In the post-privatization period insiders increased their "possessions" only marginally (by one percentage point). The structure of distribution of shares among the mentioned sub-groups also remained virtually unchanged: both managerial staff sub-groups gained one percentage point, each taking away 2 percentage points from rank-and-file employees. Furthermore, any changes to the size and structure of stakes owned by insiders were recorded in only 6 companies (12% of the sample). In terms of domination of any of the mentioned sub-groups, the ownership structure also remained virtually unchanged: in the post-privatization period in only one company (2%) the top management staff managed to join the group of owners of controlling interests.

As should have been expected, the domination of insiders was largely contributed to by employee and management buy-outs. The domination of this group was relatively most common in medium-sized companies, in the chemical industry and in firms producing consumer goods.

1.2.1.3. Foreign Investors

Foreign investors are the smallest category of investors. On the average, they account for 10% of shares of the surveyed companies and are investors in 15% of the sample. However, in the enterprises they hold shares of they are usually owners of large and very large stakes. Only one foreign investor, being a natural person, holds a small stake (less than 2%). The remaining ones, being exclusively legal persons, own stakes ranging from 40 to 100% (73% on the average). This 40% stake is the only non-controlling interest owned by a firm – foreign investor. Despite the increase in foreign investors' possessions by only one percentage point in the entire sample after privatization, the actual expansion of foreign investors is much more pronounced. Namely, the share of enterprises with controlling interests owned by foreigners doubled from 6% to 12%.

Most frequently, the domination of foreign investors can be found in enterprises sold as a result of negotiations with a potential buyer. Foreign investors control two-thirds of electronic and electrical industry enterprises. They were more inclined to invest in production of consumer goods than capital goods, and are not involved at all in production of goods requiring further processing, as they are interested exclusively in finished products.

1.2.2. Control

As has been already mentioned above, finding a real and effective owner is one of the major objectives of privatization. An active investor is not just waiting for dividend yields, but is trying to contribute to a better efficiency of the firms' operations. Obviously, to be able to influence the decisions involved with company operation, the investor must own a sizable stake in its equity. This influence may be of a direct nature, when the owners manage their firms on their own and in person. This is possible only in the case of very small firms, and only in some legal forms of companies (general partnership). In all other firms, ownership and control (as well as management) are separated, i.e. special bodies, the so-called corporate governance bodies are appointed to manage the company and to exercise owner's control.

These bodies can be developed in accordance with two basic schemes. The first of them, so-called continental three-pillar model, provides for appointment of three bodies: the General Assembly of Shareholders (or simply the Owner in the case of an one-man company), the Supervisory Board (a control body) and the Management Board (an executive body). The second (Anglo-Saxon) model provides for only two bodies: the General Assembly of Owners (or the Owner) and the Board of Directors (an executive body, partly exercising also control functions).

In post-communist countries including Bulgaria, the structure and personal composition of corporate governance bodies have not been fully formed. In the analyzed sample, 64 percent of enterprises represent the two-pillar model of corporate governance, while the remaining 36 percent represent the three-pillar model. The personal composition of control bodies does not always reflect the ownership structure of companies.

As can be seen from the data presented in Table 1-10, in more than half of companies, representatives of the founding authority of the former state-owned enterprise are members of the Boards of companies. They are even represented in 20% of companies taken over by foreign investors. Most frequently, representatives of the former authority can be found in companies in which the ownership control has been taken over by domestic outsiders. This refers especially to companies with the controlling interest owned by investment funds (73% of such companies), but even in firms controlled by other domestic legal persons, a representative of the former authority – a state administration agency, is present in every second company. Such a person is even present in one company in which the state no longer owned any shares, and in almost half of companies in which the state's stake does not exceed 33%, i.e. in which the state has no statutory rights to influence their operations. Apparently, representatives of the state "cared" most for the biggest enterprises and for the industries most preferred under the former system. State officials can be found in 82% of the surveyed heavy and machine-building industry enterprises, 78% of chemical industry firms and 72% of firms manufacturing capital goods. All these are rather disturbing signals which indicate that, on the one

Table 1-10. Representation of various categories of members of Supervisory Boards/Boards of Directors in particular categories of the surveyed enterprises (percent)

Categories of members of Supervisory Boards/Boards of Directors	TOTAL	Ownership structure patterns			
		dispersed	domination of insiders	domination of local outsiders	domination of foreign investors
1. Representatives of the Privatization Agency	2	–	–	4	–
2. Representatives of the former authority	52	50	46	61	20
3. Representatives of a state bank	6	–	18	4	–
4. Representatives of a private bank	14	–	18	14	20
5. Shareholders employed by the company	44	50	82	28	40
6. Company employees not being its shareholders	12	–	–	21	–
7. Representatives of owners – Bulgarian legal persons (excl. investment funds)	36	67	–	50	–
8. Representatives of owners – Bulgarian natural persons	10	–	18	7	20
9. Representatives of investment funds	22	33	–	32	–
10. Representatives of the state as the owner, not being state officials	10	–	–	14	20
11. Persons from outside the company not being its shareholders	10	–	9	11	20
12. Representatives of foreign investors	12	–	9	–	100

Table 1-11. Composition of Supervisory Boards/Boards of Directors in the surveyed enterprises (percent)

Enterprise category	Board composition category		
	domination of insiders	domination of outsiders not involved with the state	domination of outsiders involved with the state
TOTAL	24	66	10
Transformation method			
1. Transformation into a joint-stock company	20	72	8
2. Transformation into a limited liability company	–	67	33
3. Direct sale	80	20	–
Privatization technique			
1. Cash privatization	34	60	6
– employee and management buy-out	53	47	–
– tender/auction	25	50	25
– negotiations with potential buyers	8	92	–
2. Voucher privatization	12	71	17
Branch (industry)			
1. Heavy and machine-building	27	73	–
2. Electronic and electrical	–	100	–
3. Chemical	11	78	11
4. Textile and clothing	23	62	15
5. Food-processing	33	50	17
Kind of production			
1. Capital goods	16	72	12
2. Consumer goods	35	56	9
Degree of processing			
1. Raw and base materials, semi-products	22	56	22
2. Finished goods	25	67	8
Number of employees			
1. Up to 300	39	50	11
2. 301-1000	17	78	5
3. Over 1000	14	72	14
Ownership structure			
1. Dispersed	17	66	17
2. Domination of insiders	64	27	9
3. Domination of domestic outsiders	14	75	11
4. Domination of foreign investors	–	100	–

hand, the state's attempts to maintain its control over privatized enterprises and, on the other hand, that, in the best case, the old links and connections have not been overcome yet. In the worst case, it may be an indication of some forms of corruption.

Insider owners are another large category of Supervisory Boards/Boards of Directors members. They can be found in 44% of companies, but especially, of course, in firms dominated by insiders. Interestingly, domestic outsiders clearly attempt to keep the representative of this category away from membership in control and executive bodies. Representatives of domestic legal persons not being investment funds could be found in 36% of companies, of only two categories: of not fully formed ownership structure, and dominated by domestic outsiders (in the latter mostly due to companies controlled by legal persons not being investment funds).

Representatives of investment funds were present in 22% of companies, but these were also exclusively companies with dispersed ownership and dominated by domestic legal persons (this time mostly by investment funds).

The remaining categories of Supervisory Boards/Boards of Directors members are found only in isolated cases.

The above analysis of the presence of particular categories of members in Supervisory Boards and Boards of Directors of the surveyed enterprises does not provide full picture of domination of any group in ownership control bodies. To get a better insight into this matter it is necessary

Table 1-12. Composition of Supervisory Boards/Boards of Directors in the surveyed enterprises (percent)

Enterprise category	President of the Board category		
	insider	outsider not involved with the state	outsider involved with the state
TOTAL	20	69	11
Transformation method			
1. Transformation into a joint-stock company	19	67	14
2. Transformation into a limited liability company	–	100	–
3. Direct sale	50	50	–
Privatization technique			
1. Cash privatization	27	67	4
– employee and management buy-out	53	40	7
– tender/auction	–	75	25
– negotiations with potential buyers	8	92	–
2. Voucher privatization	10	71	19
Branch (industry)			
1. Heavy and machine-building	22	67	11
2. Electronic and electrical	–	100	–
3. Chemical	14	71	14
4. Textile and clothing	33	42	25
5. Food-processing	18	82	–
Kind of production			
1. Capital goods	12	67	21
2. Consumer goods	32	68	–
Degree of processing			
1. Raw and base materials, semi-products	20	50	30
2. Finished goods	21	73	6
Number of employees			
1. Up to 300	25	69	6
2. 301–1000	17	72	11
3. Over 1000	18	64	18
Ownership structure			
1. Dispersed	17	83	–
2. Domination of insiders	70	20	10
3. Domination of domestic outsiders	4	78	17
4. Domination of foreign investors	–	100	–

to divide these members into three groups: insiders, outsiders not involved with the state and outsiders involved with the state. On the basis of this division, the composition of Supervisory Boards and Boards of Directors has been categorized from the point of view of domination of any of these groups. It has turned out that in all the surveyed enterprises the Boards are dominated, in terms of the number of members, by one of the above-mentioned groups: in 66% of firms the Boards are dominated by outsiders not involved with the state, in 24% by insiders, and 10% by outsiders involved with the state (see Table 1-11).

The above data generally indicate that in most cases the composition of the Boards is consistent with the ownership structure in companies. Those having a majority stake usually have a dominating position in the company's bodies. Enterprises sold directly are an exception here. In these firms, despite the clearly outsider ownership domination it is insiders who outnumber other Board members. Maybe some conditions were involved under which a consent for such a privatization method was obtained from the state-owned enterprise employees and management. It is also difficult to find the reasons for some Boards being dominated by persons in some way involved with the state. Definitely, the composition of such Boards could be attributed to specific forms of privatization methods and techniques: setting up a limited liability company, voucher privatization, tenders or auctions. Also apparent seems to be the "favoring" of manufacturers of capital goods and low-processed goods. On the other hand, sales to insiders and particular investors (directly, and by means of negotiations), especially foreign investors, did not contribute to such a Board composition.

The activities of Supervisory Boards and Boards of Directors depend not only on their composition, but also on their Presidents. Most frequently a representative of a domestic investor not being the investment fund was appointed to that post (31% of the sample). The second rank is occupied by a representative of insiders (20%), and the joint third by representatives of investment funds and foreign investors (13%, each). Other groups (defined in the same way as Board members – see Table 1-10) were represented only marginally. The analysis of the proportions of various categories of Presidents of Boards in particular groups of companies confirms most of the earlier findings, additionally accentuating the "care" of state administration representatives for the largest works, operating in branches of "strategic" importance. It also well illustrates the ways in which this "care" could best materialize (see Table 1-12).

1.3. Conclusions

The results of the analysis of the progress and "quantitative" effects of privatization of the surveyed sample of privatized Bulgarian enterprises allow to evaluate their most important aspects – both the positive and the doubtful ones.

As regards the successes of the Bulgarian privatization, at least in the analyzed sample of industrial enterprises, we should mention the attainment of a high degree of ownership concentration and the fact that this concentration took place mostly outside the enterprise. This way it was rendered possible to avoid problems associated with ownership transformations typical of many post-communist countries, namely excessive dispersion of ownership and concentration of a major proportion of shares in the hands of management and employees of privatized enterprises.

At the same time, the research revealed a number of irregularities contributing to a slow-down in the privatization process, and adversely affecting its efficiency and transparency.

1. Privatization methods do not always correspond with enterprises' predispositions. Cases were found of transforming large enterprises into limited liability companies, sometimes even without prior corporatization, while these methods are known to be effective only when applied to small enterprises. Apart from that joint-stock companies are established with restrictions imposed on trading in their shares, which contradicts the very idea of a jointstock company and hampers the concentration of equity with the most effective investors, this way slowing down the processes of ownership re-distribution. One should contemplate chances of privatization of all large and some medium-sized enterprises exclusively through their prior transformation into joint-stock companies and prohibit the provisions in companies' statutes, which restrict trading in shares. One can also examine the applicability of preparing an appropriate legal act committing all the already established joint-stock companies to repeal similar provisions.

2. The research revealed a very large scope for such privatization techniques as sale to the enterprise management or employees, as well as negotiations with potential buyers. These methods do not always secure the choice of the best investor and the most favorable sales conditions. The possibly broadest application of competitive methods should be pursued, first of all auctions (in the case of small stakes) and various tenders (commercial and investment ones). At the same time, the procedures of carrying out tenders and auctions should be improved, so that they did not lead to an excessive slow-down in ownership transformations. This also refers to all other privatization techniques, as transformation of the surveyed enterprises would usually take a very long time.

3. Formation of an effective owner was rendered difficult by the fact that large stakes in companies had been covered by the mass privatization program. Investment funds, which emerged within the framework of mass privatization (also following their transformation into holdings) are not able to perform that function for many reasons. They do not invest financial means, which are so desperately needed by Bulgarian enterprises. Moreover, a strategic investor other than investment fund could possibly assume some investment and financial commitments. The situation that has developed creates the "least-favored-industry-regime" for entire branches which are covered by mass privatization to a larger degree than other branches. This refers, especially, to the heavy and machine-building, as well as chemical industries, troubled by chronic underinvestment. Consequently, in the second wave of privatization only small stakes in privatized enterprises should be covered by mass privatization, with controlling interests reserved for strategic investors.

4. On the occasion of sale of privatized assets the state imposes on investors many commitments, especially as regards maintaining the profile of production, the level of employment, social infrastructure facilities, as well as investment commitments and those concerning the repayment of the enterprise's debts and environmental protection. Most of these commitments (referring to the profile of production and the social package) are inconsistent with the market economy principles and very troublesome and restricting for the investor. This adversely affects the attractiveness of privatized entities, which leads to problems with finding a strategic investor, has a negative effect on transaction prices and clearly diminishes chances for privatization of firms in poor economic and financial condition. In our opinion it is purposeful to resign from imposing commitments in the case of selling stakes not allowing to exercise control over the company's operations. However, complete resignation from the commit-

ments of maintaining the profile of production and considering a reduction of the scope of commitments in the field of employment and social matters and shortening of their implementation periods seem much more important. The commitments imposed on investors should, first of all, provide opportunities for real improvement of the economic and financial condition of the privatized enterprise. Therefore, wherever it is purposeful, strategic investors should be encouraged to assume investment and debt repayment commitments. Given the disastrous condition of the natural environment, more attention should be paid to investors' commitments in the field of environmental protection.

5. The state still holds stakes in a vast majority of the surveyed enterprises. It means that these enterprises have not been fully de-etatized. Moreover, these stakes are usually so small that they do not allow any intervention into companies' operation. Definitely, such stakes must be sold and the state should stick to the rule according to which it may own interests only in a small number of enterprises of a really strategic importance, and the size of these stakes should secure exercising owners' control over their operation. The state us bound to temporarily hold shares reserved for the purposes of restitution.

6. Many members of Supervisory Boards and Boards of Directors of the surveyed enterprises are state officials. They can be found even in companies in which the state has no stakes at all, or these stakes are too small to allow any control over the firm. Apart from the unneeded intervention in the functioning of the private economic entity, the existing situation contributes to development of companies' undesirable informal links with state officials and to other distortions of the functioning of market mechanisms. A rule should be adhered to, according to which state officials cannot be appointed members of the governing bodies of all entities, in which the state's stake does not exceed 33%. This rule should also be observed while selling shares of privatized enterprises.

Julian Pankow

Part 2
Processes of Enterprise Restructuring

The main reason for privatization of the state sector is the creation of conditions necessary for the improvement of economic efficiency and for increasing competitiveness of economic entities. Sometimes the change of the ownership status of an enterprise from state-owned to private is sometimes regarded as a restructuring endeavor. It can be seen from the vast experience already gathered by many countries that not always formal privatization brings about the envisaged restructuring effects, especially in a short-time perspective.

The efficiency of privatization as a method of restructuring depends on many factors. At the early stage of ownership transformations the starting-point conditions of individual countries were of particular importance. Over time, the relative weight of this factor has diminished. However, the macroeconomic situation of individual countries and the overall trend of business still exert their apparent impact on the progress of privatization. This refers both to the supply and the demand side. As regards the supply side of privatization, i.e. the privatized entities, cyclical upswing contributes to improvement of the attractiveness of state-owned enterprises to be privatized, and results in an increase in their value. Consequently, it contributes to higher selling prices of these enterprises. On the demand side, favorable macroeconomic situation of a given country contributes to higher savings and to higher propensity to invest. Accumulated cash funds can be spent both on the purchase of privatized entities and on financing their post-privatization development. In a situation of cyclical downswing, the reverse is the case. On the supply side, the privatized entities are usually less attractive, and their value is smaller. On the demand side, under cyclical downswing the amount of free domestic capital assets is restricted. Even if this capital is spent on purchases of privatized assets, it is insufficient to finance necessary restructuring projects. By the end of 1997, privatization in Bulgaria was taking place under conditions of a deepening decline in gross domestic product, except for slight increase in GDP recorded in 1994 and 1995, with all the negative consequences involved.

Restructuring effects of privatization are also conditioned by the legal and institutional framework setting out the privatization model in a given country. This model consists of privatization methods and techniques, as well as the organization and procedures of ownership transformations. They should reflect the priorities of particular countries, contribute to the realization of the assumed objectives and make it possible to implement the adopted privatization strategy. The legal framework determines the rules of the game in the field of privatization, with all its complexity. Therefore, it should be stable and transparent. By the end of 1996, i.e. in the period when the surveyed enterprises were privatized, this condition was not sufficiently fulfilled. Regulations were subject to frequent amendments, which also involved laws crucial for privatization.

The adjustment responses of privatized enterprises, especially in the early post-privatization period, are largely determined by the privatization policy of a given country. The ability of privatized enterprises to undertake restructuring activities depends, first of all, on the approach to privatization and on the applied instruments, i.e. privatization methods and techniques. As can be seen from the experience of many transition economies, the ownership structure of enterprises, which has been shaped by privatization, is the decisive factor here. It is this structure that, first of all, makes it possible or difficult, and sometimes temporarily impossible to undertake and finance active restructuring strategies.

The present chapter includes the results of studies of restructuring processes in the privatized enterprises. It provides an insight into basic restructuring strategies applied by the companies, ranging from the simplest adjustment strategies to deep marketing strategies.

An attempt has been made to identify the main actors of restructuring processes and to examine their role in undertaking these processes. Apart from that, the chapter contains an analysis of financial aspects of restructuring, in particular the dynamics of outlays and the sources of financing of restructuring projects. It ends with a summary and conclusions.

2.1. Restructuring Strategies of Enterprises

2.1.1. Simple Adjustment Strategies

The simplest adjustment responses of enterprises involve sale of assets which are needless from their point of view. This refers to sales of both production and non-production assets, in particular selling out the burdensome social assets inherited from the former system. Such activities are usually undertaken in the early post-privatization period. For some enterprises selling out non-core assets is a trimming-off measure, being the first step towards restructuring. For other firms, it simply means "eating up" assets to deal with working capital shortages and should rather be seen as an element of their survival game. The

Table 2-1. Sale of assets by privatized enterprises (percent)

Kind of undertaken activities	Not yet undertaken	Under implementation	Completed	No data available
Sale of production assets				
TOTAL	51.9	26.9	13.5	7.7
Branch (industry)				
1. Heavy and machine-building	36.4	45.4	–	18.2
2. Electronic and electrical	66.7	33.3	–	–
3. Chemical	44.4	44.4	11.2	–
4. Textile and clothing	53.8	23.1	15.4	7.7
5. Food-processing	61.5	–	30.8	7.7
Kind of production				
1. Capital goods	46.2	42.3	3.8	7.7
2. Consumer goods	54.2	12.5	25.0	8.3
Degree of processing				
1. Raw and base materials, semi-products	70.0	20.0	–	10.0
2. Finished goods	45.0	30.0	17.5	7.5
Ownership structure				
1. Dispersed	50.0	16.7	33.3	–
2. Domination of insiders	90.0	–	10.0	–
3. Domination of domestic outsiders	26.9	30.8	42.3	–
4. Domination of foreign investors	100.0	–	–	–
Sale of non-production assets				
TOTAL	63.5	19.2	9.6	7.7
Branch (industry)				
1. Heavy and machine-building	45.5	27.3	9.1	18.2
2. Electronic and electrical	66.7	33.3	–	–
3. Chemical	77.8	11.1	11.1	–
4. Textile and clothing	61.5	23.1	7.7	7.7
5. Food-processing	61.5	15.4	15.4	7.7
Kind of production				
1. Capital goods	57.7	26.9	7.7	7.7
2. Consumer goods	66.7	12.5	12.5	8.3
Degree of processing				
1. Raw and base materials, semi-products	70.0	20.0	–	10.0
2. Finished goods	60.0	20.0	12.5	7.5
Number of employees				
1. Up to 300	52.9	16.7	16.7	–
2. 301-1000	68.4	16.7	10.5	–
3. Over 1000	41.7	25.0	16.7	–
Ownership structure				
1. Dispersed	66.7	16.7	16.7	–
2. Domination of insiders	72.7	18.2	9.1	–
3. Domination of domestic outsiders	55.2	20.7	10.3	13.8
4. Domination of foreign investors	83.3	16.7	–	–

surveyed enterprises relatively rarely resort to such "trimming-off measures" or to "eating up" their assets, as Table 2-1 illustrates.

In only every seventh or eighth surveyed enterprise the process of selling out non-core production assets has been completed. Some variation was found in the breakdown by branch. In the food-processing industry almost one-third of firms have already sold the needless assets, but in the remaining two-thirds such sales have not been embarked on at all, like was also the case with the electronic and electrical industry. In more than a quarter of enterprises the sale of non-core assets has been under way. The process of trimming off heavy industry enterprises has been going on (45%), which has also been the case with chemical industry enterprise (45%, as well).

The attitude towards selling out needless production assets is considerably differentiated, depending on the type of the ownership structure. Among the firms embarking on sales of non-core production assets there were no firms dominated by foreign investors, at all. Firms dominated by insiders did not get rid of needless assets much more often, either. Except for one case, it was firms producing consumer goods and exclusively final goods, which have effectively got rid of non-core assets. All these firms report positive profitability during the post-privatization period.

Needless non-production assets have been sold in an even smaller percentage of enterprises (less than every tenth). These few firms are exclusively enterprises producing final goods. All of them are profitable, with only one exception. Medium-sized and chemical industry enterprises are the least prone to get rid of their social facilities. In terms of the ownership structure, firms controlled by foreign investors and insiders were the least likely to sell out non-production assets. In the case of firms with foreign participation, needless elements of assets could have been got rid of by enterprises prior to their privatization.

The most elementary of restructuring strategies, i.e. selling out needless assets, has been generally poorly advanced in the surveyed companies. More than half of firms have not embarked on it at all, and in the case of non-production assets this has not been done by almost two-thirds of firms. It is not known what prevents companies from selling out non-core assets. Is it a consequence of some restrictions or commitments assumed on concluding privatization transactions, or is it the result of decisions made by the companies' governing bodies to keep these assets "just in case". Whatever the reason, these assets can generally be seen as substantial and relatively easily accessible reserves.

Another group of restructuring activities, which generally do not go beyond simple adjustment responses inside enterprises, consists of measures aimed at looking for reserves in the field of savings. First of all, they involve cuts in all kinds of costs and improvement of the efficiency of utilization of the existing assets. Table 2-2 illustrates the frequency of undertaking by enterprises of activities in particular fields.

A vast majority of the surveyed enterprises only face the necessity of undertaking simple adjustment measures or are just implementing them. Substantial cuts in general costs have been initiated by almost two-thirds of enterprises, but completed by less than one in six of them. These are exclusively food-processing industry enterprises. But this branch also has the largest percentage of firms having not embarked on any activities in this field. Relatively most endeavors involved with considerable reduction of general costs are under implementation in the chemical, as well as electronic and electrical industries.

Depending on the structure of production costs, their reduction can be obtained in many ways: through cutting the consumption of raw and base materials, limiting the energy-intensity of production or cutting labor costs. A conspicuous reduction of material costs has been pursued by only slightly more than one-third, and cuts in energy costs by less than half of all the surveyed enterprises. The electronic and electrical industry is the sector in which relatively most enterprises undertake activities in the field of cutting materials costs. These are largely companies producing consumer goods and final products. The correlation with the profile of activities is even more apparent in the case of reduction of energy costs. Most companies producing capital goods and a vast majority of those producing non-final products have not yet embarked on activities aimed at cutting energy consumption. Relatively most such enterprises can be found in the heavy industry.

The share of enterprises declaring a start of a major reduction of the level of employment i.e. by more than 10%, (19% of companies), or its completion (30% of companies) is relatively small, but even so it should be seen as quite substantial, given the limitations in this field. In some 80 percent of companies, the investors assumed commitments of maintaining employment at the existing level or even creating new jobs. Job losses have occurred or are occurring most often in large enterprises with above 1,000 employees, and in small enterprises with less than 300 employees. They are not recorded in three-fourth of medium-sized enterprises. As regards the ownership structure, substantial job losses have not occurred in any firm controlled by foreign investors. With one exception, this is also the case with the surveyed companies dominated by insiders. In a breakdown by branch, job losses were most common in heavy industry enterprises, firms producing capital goods and food-processing industry enterprises.

One should note here the relatively large share of enterprises undertaking actions in the field of environmental pro-

Table 2-2. Simple adjustment strategies of enterprises (percent)

Kind of undertaken activities	Not yet undertaken	Under implementation	Completed	No data available
Substantial cuts in general costs				
TOTAL	28.8	53.8	11.5	5.8
Branch (industry)				
1. Heavy and machine-building	27.3	54.5	9.1	9.1
2. Electronic and electrical	33.3	66.7	–	–
3. Chemical	11.1	77.8	–	11.1
4. Textile and clothing	30.8	61.5	–	7.7
5. Food-processing	38.5	30.8	30.8	–
Substantial cuts in material costs				
TOTAL	48.1	36.5	3.8	11.5
Branch (industry)				
1. Heavy and machine-building	45.4	36.4	–	18.2
2. Electronic and electrical	33.3	66.7	–	–
3. Chemical	55.6	22.2	–	22.2
4. Textile and clothing	53.8	38.5	–	7.7
5. Food-processing	46.1	30.8	15.4	7.7
Kind of production				
1. Capital goods	53.8	30.8	–	15.4
2. Consumer goods	41.7	41.7	8.3	8.3
Degree of processing				
1. Raw and base materials, semi-products	70.0	20.0	–	10.0
2. Finished goods	42.5	40.0	5.0	12.5
Substantial cuts in energy costs				
TOTAL	42.4	36.5	9.6	11.5
Kind of production				
1. Capital goods	53.9	26.9	3.8	15.4
2. Consumer goods	33.3	41.7	16.7	8.3
Degree of processing				
1. Raw and base materials, semi-products	70.0	20.0	–	10.0
2. Finished goods	37.5	37.5	12.5	12.5
Cuts in employment (by at least 10%)				
TOTAL	51.1	19.1	29.8	–
Number of employees				
1. Up to 300	35.4	29.4	35.3	–
2. 301-1000	77.8	11.1	11.1	–
3. Over 1000	33.2	16.7	50.0	–
Ownership structure				
1. Dispersed	50.0	16.7	33.3	–
2. Domination of insiders	90.0	–	10.0	–
3. Domination of domestic outsiders	26.9	30.8	42.3	–
4. Domination of foreign investors	100.0	–	–	–
Substantial reduction of environmentally hazardous impact				
TOTAL	30.8	26.9	30.8	11.5
Branch (industry)				
1. Heavy and machine-building	36.4	36.4	18.2	9.1
2. Electronic and electrical	33.3	–	33.3	33.4
3. Chemical	11.1	22.2	44.4	22.2
4. Textile and clothing	46.2	30.8	15.4	7.7
5. Food-processing	30.8	23.1	38.5	7.7

Table 2-3. Restructuring activities of enterprises in the field of technology and production (percent)

Kind of undertaken activities	Not yet undertaken	Under implementation	Completed	No data available
Change of the profile of activities TOTAL	78.8	1.9	1.9	17.4
Extension of the range of products (or services) provided TOTAL	28.8	34.6	26.9	9.6
Ownership structure				
1. Dispersed	22.2	22.2	55.6	–
2. Domination of insiders	–	60.0	40.0	–
3. Domination of domestic outsiders	38.9	33.3	11.1	16.7
4. Domination of foreign investors	25.0	25.0	50.0	–
Technological changes TOTAL	42.0	26.0	24.0	8.0
Number of employees				
1. Up to 300	42.7	26.3	15.8	15.0
2. 301-1000	47.4	31.6	15.8	5.3
3. Over 1000	28.6	21.4	50.0	–
Kind of production				
1. Capital goods	42.3	30.8	15.4	11.5
2. Consumer goods	41.7	20.8	33.3	4.2

tection. It is more than twice as high as the number of enterprises for which such commitments were envisaged in privatization transactions (25%). As regards the already completed undertakings in the field of environmental protection, they mostly concern the chemical industry, which is fully understandable. Most of the undertaken actions are found in heavy industry companies.

2.1.2. Restructuring of Production and Technological Processes

Somewhat more advanced restructuring endeavors are involved with changes in the profile of activities, extension of the product range, or introduction of new technologies. Table 2-3 presents the distribution of answers to appropriate questionnaire entries.

What seems to be striking at first sight, namely that almost all the privatized enterprises maintained their profile of activities, will become clear, when reminded that almost three-fourth of them assumed such a commitment in the privatization contract. Therefore, having no freedom of shaping the profile of their activities, at least in the transitional period, most enterprises took up measures towards expanding the range of manufactured products.

These changes were more or less evenly distributed in all the categories of surveyed enterprises. The ownership structure of companies is their only feature which, to some extent, contributes to variations among them. Firms dominated by Bulgarian investors – outsiders are the least flexible ones, as regards changes in the product range. At the same time, the most flexible ones, as regards the already accomplished changes, are companies with scattered ownership, and companies controlled by foreigners. Also as regards companies dominated by insiders, all of them have undertaken appropriate changes, and two-fifth of them have already completed them.

In more than half of the enterprises, technological changes have been initiated or implemented. This is closely related to company size. These changes have been most advanced in large enterprises, and least advanced in medium-sized firms. In a breakdown by branch, technologies have been relatively more frequently undergoing modernization in companies producing capital goods, especially those in the heavy industry. Modernization of the technological process has been more often completed in companies manufacturing consumer goods, especially in the textile-and-clothing industry. As far as the ownership structure is concerned, technological changes have been already fully implemented in two-thirds of companies with combined structure, and in half of companies with a majority stake owned by foreign investors.

2.1.3. Restructuring of Management Systems

Deeper restructuring processes involve changes in the structure and the system of managing privatized enterprises, including changes in the motivation system. Table 2-4 presents the incidence of undertaking such measures

A relatively large percentage of companies, i.e. almost two-thirds of them, undertook or completed changes in

Table 2-4. Changes in the organizational structure and in the management system (percent)

Kind of undertaken activities	Not yet undertaken	Under implementation	Completed	No data available
New organizational structure TOTAL	26.9	28.8	36.6	7.7
Number of employees				
1. Up to 300	36.8	21.1	36.8	5.3
2. 301-1000	26.3	42.1	21.1	10.5
3. Over 1000	14.3	21.4	57.2	7.1
Ownership structure				
1. Dispersed	33.3	17.7	50.0	–
2. Domination of insiders	54.5	27.3	9.1	9.1
3. Domination of domestic outsiders	20.7	27.6	41.4	10.3
4. Domination of foreign investors	–	50.0	50.0	–
Establishment of autonomous entities within the enterprise TOTAL	73.0	5.8	5.8	15.4
Changes in the remuneration system TOTAL	42.3	32.7	21.2	3.8
Number of employees				
1. Up to 300	31.6	31.6	31.6	5.3
2. 301-1000	47.4	36.8	10.5	5.3
3. Over 1000	50.0	28.6	21.4	–

their organizational structures. These changes were mostly introduced by large companies with more than 1,000 employees, controlled by foreign investors, and slightly less often by Bulgarian outsiders. Changes of this kind were also effectively implemented in companies with dispersed ownership structure, but they are generally prompted by high capital concentration. More than 55% of companies with controlling interests owned by a single shareholder, have already completed major structural changes. On the other hand, companies dominated by insiders clearly avoid changes in their organizational structure.

Although it is difficult to judge the nature of structural changes, they are usually not as deep as to lead to establishment of new entities, such as subsidiaries or profit generation centers. Changes of this kind were recorded in only every tenth surveyed enterprise. All of the firms in which such changes took place produce final goods, including consumer goods.

One should note the relatively limited scope for changes in the remuneration system of enterprises. Usually, such changes are among major restructuring measures. On the one hand, they are involved with rationalization of labor costs and, on the other hand, they are a significant part of changes in the management system, in particular as an instrument of managing human resources and the staff policy. Changes affecting the motivation system involved not more than half of the surveyed enterprises and were completed only in every fifth of them. Company size is the only feature contributing to a variation in the attitude of the surveyed enterprises towards changes in their remuneration systems. In this context, medium-sized and large enterprises were the most inert ones, while the scope for these changes was the largest in smaller companies.

2.1.4. Marketing Restructuring

Substantial restructuring of privatized enterprises is usually involved with their re-orientation from the traditional production-and-technology approach to a market-and-competition approach. This re-orientation is reflected in working out marketing strategies, and in acquiring new segments of the market. This, in turn, is conditions by access to new sources of funding (Table 2-5).

More than three thirds of the surveyed enterprises have already undertaken activities towards working out a marketing strategy and one enterprise in four has already developed such a strategy. New approach to marketing is found more frequently in medium-sized and large enterprises, especially those dominated by foreign investors. Nevertheless, unlike companies dominated by insiders and, in particular, by Bulgarian investors from outside the company, half of companies with dispersed ownership structure have also worked out a marketing strategy. Companies with already developed marketing strategies are more likely to produce consumer goods than capital goods, and final goods than raw materials and semi-products. These are, without any exceptions, firms which are profitable in the post-privatization period.

Table 2-5. Active restructuring strategies (percent)

Kind of undertaken activities	Not yet undertaken	Under implementation	Completed	No data available
Development of marketing strategy TOTAL	25.0	44.2	25.0	5.8
Number of employees				
1. Up to 300	36.8	36.8	21.1	5.3
2. 301-1000	15.8	52.6	26.3	5.3
3. Over 1000	21.4	42.9	28.6	7.1
Ownership structure				
1. Dispersed	16.7	33.3	50.0	–
2. Domination of insiders	27.3	45.5	27.3	–
3. Domination of domestic outsiders	27.6	51.7	10.3	10.3
4. Domination of foreign investors	16.7	16.7	66.7	–
Undertaking new investment projects TOTAL	25.0	42.3	26.9	5.8
Ownership structure				
1. Dispersed	16.7	50.0	33.3	–
2. Domination of insiders	9.1	54.5	36.4	–
3. Domination of domestic outsiders	34.5	34.5	20.7	10.3
4. Domination of foreign investors	16.7	50.0	33.3	–
Ownership concentration				
1. Strategic investor with a controlling interest (above 50% of shares)	17.2	44.8	34.6	3.4
2. No strategic investors	41.2	29.4	17.6	11.8
Kind of production				
1. Capital goods	38.5	42.3	11.5	7.7
2. Consumer goods	12.5	41.7	41.7	4.2
Acquiring new sources of funding TOTAL	51.9	21.2	11.5	15.4
Ownership concentration				
1. Strategic investor with a controlling interest (above 50% of shares)	51.7	13.8	20.7	13.8
2. No strategic investors	53.0	23.5	–	23.5
Kind of production				
1. Capital goods	61.5	11.5	3.8	23.1
2. Consumer goods	45.8	29.2	16.7	8.3
Degree of processing				
1. Raw and base materials, semi-products	60.0	10.0	–	30.0
2. Finished goods	52.5	22.5	12.5	12.5

A similar distribution of answers is obtained in the case of undertaking new investments. Generally speaking, one-in-four surveyed company has already completed its investment scheme. More than 40 percent of enterprises are in the course of implementing investment projects. The distribution of answers does not depend on the company size. However, it is conditioned by the structure of their equity, as regards both the types of the ownership structure and the level of capital concentration. The most advanced investment programs are implemented in companies dominated by insiders, which is rather striking in the context of other countries' experience and commonplace opinions. Companies dominated by foreign investors are not far behind, while companies controlled by domestic outsiders are clearly losing ground. Moreover, the undertaking and implementation of investment projects is prompted by capital concentration. Companies regarding their investment projects as completed operate mostly in the textile-and-clothing and food-processing industries. As regards the profile of activities, firms producing consumer goods are clearly in majority. All of them are profitable.

It may seem surprising that undertaking investment projects is not accompanied by sufficient acquisition of new sources of investment activity financing. Such efforts have been undertaken by only one-third of enterprises,

Table 2-6. Impact exerted on restructuring undertakings (percent, a six-grade scale from "0" to "5", where "0" means no impact and "5" means maximum impact)

Bodies, groups, institutions	No impact	Mini-mum impact	Weak impact	Fairly strong impact	Very strong impact	Maxi-mum impact	Data not available
	"0"	"1"	"2"	"3"	"4"	"5"	
(a) General Assembly of Shareholders	9.6	5.8	9.6	25.0	11.5	34.7	3.8
(b) Supervisory Board or Board of Directors	1.9	–	–	3.8	17.3	71.2	5.8
(c) Management Board	11.5	1.9	–	11.5	26.9	40.5	7.7
(d) Trade unions	23.1	11.5	17.3	25.0	13.5	1.9	7.7
(e) Employees	23.1	13.5	17.3	11.5	26.9	–	7.7
(f) Consulting company	63.5	7.7	3.8	5.8	3.8	1.9	13.5
(g) Privatization Agency	55.8	11.5	7.7	5.8	9.6	1.9	7.7
(h) Banks	57.8	7.7	7.7	3.8	3.8	3.8	15.4
(i) Former founding authority	53.8	11.5	5.8	5.8	5.8	1.9	15.4

and only one-in-nine company has actually obtained new capital assets. All firms having acquired new sources of financing have a strategic investor, and all of them produce final goods, mostly consumer goods. Besides, all of them are profitable. Symptomatically, companies not having a strategic investor are looking for new sources of capital. These are mostly insider companies and firms with dispersed ownership structure. It can be reasonably expected that many of these companies will undergo processes of redistribution of ownership rights, contributing to concentration in the field of the ownership structure and emergence of strategic investors. Virtually no firms controlled by Bulgarian outsiders make efforts to attract new sources of financing. In this case, we should rather reckon with petrification of the existing ownership structure. If this projection comes true, we should also reckon with a relatively passive approach as regards undertaking of radical restructuring measures requiring vast financial outlays.

2.2. The Actors of Restructuring

What bodies, groups of interest or other organizations exert the decisive impact on restructuring measures undertaken by enterprises? As can be seen from the obtained answers, restructuring lies primarily within the powers of statutory bodies of privatized enterprises and, to a smaller extent, within the competence of their employees or trade unions, and occasionally also institutions from outside enterprises.

In nine enterprises out of ten decisive impact on restructuring activities is exerted by Boards of Directors or Supervisory Boards, while in seven out of ten by their Management Boards. The fact that in a vast majority of companies restructuring programs are the domain of Boards of Directors (or Supervisory Boards) is fully understandable, as such are their formal powers. The position of Boards is the strongest in companies, in which there are no strategic investors, and in virtually all companies controlled by insiders. The few cases of relatively irrelevant impact of Boards refer to companies with dispersed ownership structure.

In more than one-third of companies a major influence is also exerted by the owners through the General Assembly of Shareholders. The strongest impact of the General Assembly of Shareholders is found more frequently in companies with dispersed ownership structure and without a strategic investor, as well as in companies with foreign participation. This refers, in the first place, to large firms, producing final, usually consumer goods. Such firms are mostly operating in the food-processing and textile-and-clothing industries.

In more than a quarter of enterprises the employees have a strong influence on their restructuring, while the role of trade unions is less significant. The impact of employees is recorded mostly in firms controlled by insiders, especially medium-sized enterprises most of them operating in the textile-and-clothing industry. At the same time, trade unions exert a noticeable influence on restructuring of firms with dispersed ownership structure, without a strategic investor. These are predominantly large companies, most of them operating in the textile-and-clothing industry.

In isolated cases, some impact on restructuring is also exerted by state administration bodies, especially the Privatization Agency, and to a smaller extent, by the former founding authorities. The Privatization Agency had some influence on restructuring programs of companies in which either an owner holding a controlling interest had not emerged, or such a stake had been bought by Bulgarian investors from outside the company. This refers mostly to large enterprises. At the same time, former founding authorities had something to say in a few cases of small or medium-sized enterprises. The incomplete data, which have been gathered, seem to indicate that here we have to do here with functions involved with owners' supervision (in the case of the remaining stakes owned by the state) rather than with control over fulfillment of commitments provided for by privatization contracts.

The involvement of consulting firms and banks in the restructuring of the surveyed companies is relatively small, which may be surprising. Single cases of participation of consulting firms refer to companies controlled either by insiders or by Bulgarian outsiders. Companies with foreign participation are not represented in this group of firms. The influence of banks was recorded in isolated cases of companies without strategic investors.

2.3. Financing of Restructuring Processes

Generally speaking, the obtained data indicate that restructuring is accomplished by enterprises on their own, according to their own concepts and mostly with their own funds. This is mostly involved with the nature of restructuring measures being undertaken. As has been already said, these are mostly simple and rather superficial restructuring undertakings, which usually do not require vast outlays. A question can be asked here of what is the effect and what is the cause, i.e. to what extent the companies embarking on restructuring programs are confined by the available sources of their financing. In other words, are the surveyed enterprises compelled to adjust their restructuring plans largely to the available funds.

2.3.1. Dynamics of Outlays on Restructuring

A partial explanation is provided here by the answers concerning the level of the outlays already made and outlays necessary, according to enterprises, for carrying out the adopted restructuring programs.

Table 2-7. Outlays on restructuring (BGL thous.*)

Value of average annual outlays on restructuring	Year					
	1995	1996	1997	1998	1999	2000
Value of indispensable funds	152,400	143,400	92,700	185,400	186,000	181,200
Outlays actually made	147,700	153,000	130,100	166,600	×	×
Number of enterprises making outlays in a given year	6	8	20	22	13	13

* Before denomination

The above data can give only some idea of investment outlays on restructuring of privatized enterprises. These data are based on the category of average outlays, while very big differentials between particular firms can be the case. For example, in 1997 the largest actual outlays on restructuring in one enterprise totaled BGL 1.7 billion [6], while the smallest outlays closed at only BGL 100,000. Furthermore, the outlays are expressed in current values, so they do not reflect inflation, especially its particularly strong surge of the late 1996 and early 1997.

Despite these reservations, the above data illustrate some trends having developed over the last couple of years in the field of financing of restructuring measures by the surveyed enterprises.

First, with the increase in the number of privatized enterprises, the average outlays had been clearly declining over the first three years of the analyzed period. This may mean that having paid for the privatized firms, their owners have no funds left for their restructuring.

Second, the relatively small discrepancy between the value of fund regarded as indispensable and the outlays actually made confirms that restructuring schemes are adjusted to financial capacities of companies. This refers not only to average figures, but generally also to individual enterprises.

Third, compared to the years 1997–1998, the number of companies planning to finance the processes of restructuring has been dropping. At the same time, companies' requirement for funds necessary for further financing of restructuring programs have more or less stabilized at their 1998 level.

[6] Before the mid-1999 denomination.

Table 2-8. Period required for completion of the process of enterprise restructuring (percentage of enterprises by number of years)

Time required for completion of restructuring	Percentage of enterprises
Six months	1.9
One year	9.6
Two years	5.8
Three years	1.9
Four years	3.8
Five years	13.5
Above five years	1.9
Permanent process	38.5
Restructuring has been completed	15.4
No data available	7.7

2.3.2. Duration of Restructuring Programs

The above data might suggest that the periods of restructuring are relatively short and subject to shortening. This is not the case, as Table 2-8 indicates.

For one-in-six surveyed enterprise the restructuring scheme has been regarded as completed. These are not exclusively small firms, as some medium-sized and even large companies also admit such completion. Also for one-in-six enterprise the period of its full completion does not exceed two years. On the other hand, also for one-in-six enterprise it takes at least five years. For almost 40% of firms restructuring is a permanent process. There are no apparent variations in answers to the question concerning the duration of the process of restructuring of the surveyed companies depending on their profile of activities, ownership structure or concentration, or even their size. Most of the surveyed enterprises regard restructuring as a long-term process or as a permanent activity. This finding well reflects the challenges faced by Bulgarian enterprises. Hence, where do the above, somewhat misleading data, come from?

2.3.3. Sources of Financing of Restructuring Schemes

The answer to these doubts seems to lie in the accessibility of the sources of financing of restructuring processes, or rather in their non-accessibility from the point of view of enterprises, as illustrated by the Table 2-9.

As can be seen from the above, almost half of the surveyed enterprises cover the restructuring costs entirely with their own means. This is done by above 63% of small firms, 42% of medium-sized companies and 36% of large companies. Most of them are companies dominated by Bulgarian outsiders, usually with large ownership concentration. In a breakdown by sector, self-financing of restructuring programs most frequently involves companies operating in the food-processing industry. In only isolated cases, the capital increase of companies is applied as a source of funds for restructuring. Looking for a strategic investor is almost equally rare as a method of providing funds for restructuring. This refers to companies already dominated by foreign parties. Restructuring programs are not more often financed with bank credits, as this source of financing is applied by only 17% of the surveyed companies, but only 7% of them cover this way 80% of required outlays. These firms are controlled by insiders.

It should be added in this place that none of the surveyed enterprises resorted to such forms of providing funds for restructuring as establishment of a joint-venture company or issuing bonds, probably due to lack of appropriate legal regulations.

2.4. Conclusions

A vast majority of the surveyed companies undertake some forms of restructuring programs. Their range is wide and their advancement is differentiated. It is generally too early to evaluate their results.

1. The simplest restructuring strategy – the process of selling out needless assets by the surveyed enterprises – has been generally poorly advanced. More than half of firms have not embarked on it at all, and in the case of non-production assets this has not been done by almost two-thirds of firms. Non-core assets are rather unlikely not to exist in the surveyed enterprises. This refers especially to non-production assets, as the experience of other countries shows. Hence, either the surveyed enterprises' motivation to get rid of their non-core assets is not strong enough, or the demand for these assets is too weak, or this process is subject to restrictions. The issue requires further analyses.

2. As regards saving strategies, a vast majority of the surveyed enterprises only face the necessity of undertaking simple adjustment measures, or are in the course of

Table 2-9. Sources of financing of restructuring (percent of enterprises)

Share in financing of restructuring (percent)	Sources of financing			
	Own funds	External funds		
		capital increase	credits	strategic investor
0	30.8	92.3	82.7	90.4
up to 10.0	3.8	–	1.9	1.9
10.1 – 20.0	5.8	3.8	5.8	–
20.1 – 30.0	1.9	1.9	–	3.8
30.1 – 40.0	–	–	–	–
40.1 – 50.0	–	–	1.9	–
50.1 – 60.0	1.9	–	–	–
60.1 – 70.0	1.9	–	–	–
70.1 – 80.0	5.8	–	3.8	1.9
80.1 – 90.0	–	1.9	–	–
90.1 – 99.9	–	–	–	–
100.0	48.1	–	3.8	1.9

their implementation. A major reduction of material costs has been initiated by almost two-thirds of enterprises, but completed by only a dozen percent of them. A major reduction of material-intensity of production has been embarked on by only slightly more than one-third, and cuts in energy costs by less than half of all the surveyed enterprises. The share of enterprises having declared the launch or completion of a major cut in the level of employment would have been larger, it had not been for the job-protection commitments imposed on the firms.

3. Also, as a consequence of the assumed commitments, almost all privatized enterprises have, in fact, maintained, their profile of activities. It is difficult to find reasons for justifying this restriction. Obviously, it does not contribute to improvement of competitiveness of privatized companies. Given these restrictions, most enterprises have only embarked on undertakings involved with extending the range of manufactured products. In more than half of enterprises technological changes have been undertaken or implemented.

4. Restructuring of the management system of surveyed enterprises have been undertaken by almost two-thirds of the surveyed enterprises. Deep structural changes are much less common. Also changes in the field of motivation systems have not yet involved almost half of the companies, and have been completed in only one-fifth of them.

5. Market reorientation is the condition of a substantial increase in competitiveness of the privatized enterprises. This reorientation finds its reflection in working out a marketing strategy. More than two-thirds of the surveyed enterprises have embarked on activities in the field of marketing strategy development, but only one enterprise out of four has already worked out such a strategy. New strategies usually require new investment. A quarter of the surveyed companies have completed their investment programs. On-going investment projects can be found in more than 40% of enterprises. Undertaking investments is not accompanied by sufficient acquisition of new sources of investment activity financing. Such efforts have been undertaken by only one third of enterprises, and only one-in-ten company has actually obtained new capital assets.

6. Restructuring programs are, first of all, the domain of the executive bodies (Boards of Directors or Supervisory Boards). In more than one third of companies a major influence is also exerted by the owners through the General Assembly of Shareholders. In more than a quarter of enterprises the employees have a strong influence on their restructuring, while the role of trade unions is less significant. This probably makes it easier to obtain consent for the possible social costs of restructuring, although it usually makes the restructuring less radical. The involvement of consulting firms and banks in the restructuring of the surveyed companies is relatively small. It is even more surprising, given the fact that only a limited number of privatized enterprises obtained "fresh blood" in the form of new managerial staff. Hence, it can hardly be expected that representatives of the former managerial staff, accounting for a major part of the management could provide for transfer of indispensable know-how in the field of management methods and techniques.

7. Basically, the restructuring is accomplished by enterprises on their own, according to their own concepts and mostly with their own funds. This is the main factor deciding the nature of restructuring measures being undertaken. Most of them are limited to undertakings nor requiring substantial outlays. Moreover, in the early post-privatization period the dynamics of these has been declining, which results from the charges involved with the purchase of privatized assets, and with the fulfillment of additional

commitments by investors. The number of companies, which over the coming period (two years) are going to continue the financing of restructuring programs. Although most of the surveyed enterprises regard restructuring as a long-term process or as a permanent activity, the shortage of funds for investment outlays' financing can be seen as the main obstacle to undertaking costly restructuring projects. Every second of the surveyed enterprises covers restructuring costs entirely with its own funds. The simple mechanism of capital increase of companies is virtually not applied as an instrument of financing their restructuring. Looking for a strategic investor is almost equally rare as a method of providing funds for restructuring. Restructuring programs are not more often financed with bank credits. In this situation, meaningful results of restructuring, reflected in a major improvement of the situation of privatized companies, can hardly be expected in a short, or even medium-term perspective.