

CHAPTER V. OWNERSHIP AND CONTROL STRUCTURES IN BULGARIA, ROMANIA AND ALBANIA: A MACRO-LEVEL COMPARATIVE ANALYSIS

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Although Albania, Bulgaria and Romania might differ in terms of size, population, policy options, they share today a lot concerning the pace of transformation, the struggle to fill the gap with more advanced transforming economies, but also the weight of political, economic and social constraints. In the 1996 World Development Report of the World Bank, the three countries belonged to the second tier of countries in terms of speed of transformation, privatisation and economic recovering. The three shared the political ambivalence of post communist leadership. After breaking out from the former socialist power - which was more brutal in Albania and Romania than in Bulgaria, a real clear cut in the leadership never came out even if formally, alternative majorities took over the power (Bulgaria, Albania). Former rulers were still in command of the economy (Romania) or were able to build up a strong opposition against the new democratic government (Albania, Bulgaria), leaving a limited room for alternative policies, particularly for the implementation of stabilisation and adjustment policies and concentrating debates mostly on political issues.

The level of the economic crisis, measured by the stiff drop in GDP and industrial production, rocketing inflation rates, rapid deficit of foreign trade, on the other hand, was high and politically, it was over the capacity of the new leadership to handle this burden and to carry out a strong policy in order to facilitate the adjustment and the transformation of firms. More strongly than in other countries, the so-called virtuous circle of the adjustment could not take place as the shock of the transition has been particularly high in these countries. But, on the other hand, the wait and see policy followed by the new governments has played the role of a placebo. A soft macro-policy and some institutional measures (liberalisation of trade, partial convertibility, competition and bankruptcy laws, the creation of financial institutions, etc.) have been implemented but, generally had few effects on the huge state sector. Privatisation of SOE was not an issue, government wishing to keep control over these firms, either to retain some power (Romania) either to avoid the control by former communists (Bulgaria). In Albania, it has almost disappeared as the State progressively lost its control over this sector.

In spite of this unclear situation, the private sector, to some extent, has been able to develop, mostly through de novo enterprises, before restructuring of SOE has started in these countries, or besides the collapse of the state sector as it was the case in Albania which main towns were already devastated before the general collapse of the country which took place in 1997. In the same year elections in Bulgaria and in Romania, has brought new liberal majorities apparently committed

to carry out liberal policies with the launching of mass privatisation programmes. In Albania, the new socialist majority has to cope with the rebuilding of both the economy and confidence of the population.

The link between macro issues and micro adjustment of firms. As the literature on this question points out and recent field researches show, there is a direct link between macro-economic and institutional measures, on the one hand and the adjustment and transforming of firms on the other. The implementation of a tough economic policy is generally made inevitable as the economies in transition have been accumulating big internal and external debts. The abandon of price regulation and of most subsidies to the industry has fuelled up inflation. On the other hand, the fiscal base of the government has almost disappeared. Stabilisation policies had to come up with these problems, that is curb inflation, control deficits. In the same time, these policies had to give information to economic agents (households, entrepreneurs, managers, foreign banks and investors) in order to create a new economic environment and reduce uncertainty and information asymmetries. These measures have been accompanied by institutional policies aiming at developing a market mechanism and to ease the transfer of ownership to private operators. One important lesson of the transition (Transition Report 1997), is that everywhere a stabilisation policy has been set up accompanied with a comprehensive programme of privatisation, the outcome has been generally more positive in terms of creation of a market economy, growth recovery, speed of privatisation, integration into the world economy.

Transition programmes in transforming economies of Eastern Europe, relies on four basic pillars which are strongly connected. The first pillar deals with the macro stabilisation policies which aims is to control and reduce internal and external deficits, curb down inflation which has exploded after price liberalisation took place, another aim of the stabilisation policy is to create a new economic environment and to provide information to decision makers, investors, but also consumers concerning the commitment of the government to these macro policy objectives.

The second pillar of the transition programme is the setting up of new market institutions in order to help market mechanisms to develop by building up an institutional framework which provides strong guidelines and gives confidence to economic agents.

The third pillar of the transition programme is the reintegration into the world economy after the collapse of the former trade organisation (regional for all other countries, autarkic concerning Albania).

The fourth pillar of the transition programme deals with the most difficult task, that is privatising and restructuring firms, on the one hand, supporting the development of de novo enterprises, of start-ups on the other.

Those four pillars are strongly connected and related; the failure in one programme as automatically a negative impact on the other for instance, the lack of clear macro-policy objective (both budgetary and monetary) has a negative impact on the behaviour of economic agents (consumers, investors). It doesn't help companies to restructure, nor consumer to spare and to invest, or external capital to come in.

Table 1. GDP Growth, (in percentage)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
AL	100	109.8	72.1	66.9	66.9	73.3	80.2	87.6	94.5	80.3	87.6
BG	100	100.5	80.6	73.3	73.3	71.4	72.6	74.2	66.1	61.5	63.3
RO	100	94.2	77.4	70.7	70.7	71.7	74.5	79.8	83.1	81.9	83.2

Source: Calculated from EBRD data

1. Ownership Structure

Bulgaria and Romania have close and considerably low indexes of the share of the private sector in the economy while in Albania the share of the private sector is quite bigger. For Bulgaria and Romania 45-50% of GDP is created in the private sector, 14-16% of the industrial production, about 60% of the construction production and 70-75% of the trade turnover. The share of the private sector in GDP of Albania is almost twice bigger (80-85%) and in the industrial production 3-4 times higher (52-56%). The main reasons for these differences are the weak rates of privatisation in the first two countries while in Albania the privatisation of the small as well as the big enterprises (with the exception of 32 biggest enterprises) was implemented very fast. For the increased share of the private sector in GDP co-operates also the quick restitution of the industrial ownership and the land to former private owners. Common weakness of the three countries is the participation of foreign investors in the privatisation process.

Close related with the structure of ownership are the legal status of the enterprises and the processes of decentralisation of the state enterprises. In the three countries exists a wide variety of juridical forms for business organisation. The changes were made in the beginning of the transition and basically are close to the ones known in the Western Europe forms of organisation. There are specific mainly in their names which recover the broken historical experience or reveal the cultural influence of any Western country. In Bulgaria in 1991 was accepted Commercial Law which included the state and private enterprises and forecasted organisational forms which practically did not exist. The law had general and anticipating character. In Romania and Albania were made separate laws for the state and for the private enterprises. The variety of organisational forms and their similarity with the known ones from the countries with market economies is observed exactly in the second group of laws.

Table 2. Enterprises by Legal Status

	Bulgaria (1996)	Romania (1997)	Albania (1996)
1. Sole proprietorship	256 426	65 994	45 562
2. Limited Liability	43 094	518 042	12 851
3. Partnership	11 176	33 152	12 851
4. Joint-Stock Company	3 547	20 278	12 851
5. State Company	194*	1 148	606

* only incorporatised state enterprises

The data from Table 2 for the incorporatised state enterprises in Bulgaria illustrate the delay of the privatisation process. The state and the municipal enterprises should be transferred in 1991-92 by the newly accepted law. Exception was made only for those which was expected to be privatised. It is necessary to have in mind that 90% of these enterprises are municipal ownership. It is important that the biggest share of the Romanian enterprises are Limited Liability companies. Partly this could be explained with the unstable economic environment in which the limited liability is preferred. In the last years in Bulgaria is also observed an increase of the share of this kind of companies. In Romania obviously there are other, more strongly acting reasons for this extremely high share.

It can be seen that in the three countries is made a progress of ownership structure development but the changes are not enough. The enterprises still are not normal market subjects and this mostly refers for the state enterprises.

2. Comparison of Control Structures

Assessing who is really controlling the firm is often difficult if we stick to a conventional approach in terms of property right. As the development of control and corporate governance theories have pointed out, it is necessary to look at the real behaviour of parties engaged in the control of firms to now exactly who is effectively controlling assets and managers. In transition economies, with fuzzy and non stabilised property rights, it is even more difficult to assess as information missing and strong asymmetries remains. Nevertheless field research with the help of quantitative and qualitative questionnaires can help to look at who is exerting control on firms either formally (through property rights, either indirectly (different kind of stake holders)

The three countries studied first share several points in common even if the pace, rhythm, and mode of privatisation might have differed during the last seven-eight years. Curiously, Albania is the country where privatising has been made easier than in the two other countries because there was actually few things to privatise or of low value. It is also the country where de novo private enterprises have soared very quickly and had a strong impact on restructuring in providing goods which were imported (for example, food). Medium size enterprises have been privatised

through a voucher scheme. In strategic sectors, the government is completing the restructuring before privatising. In Bulgaria, the pace of privatisation has been very low. An accelerated mass privatisation programme has started recently allowing a rapid transfer of property although a lot still has to be done. In some cases, insiders keep a strong control on firms although the programme's aim is to spread the property among outsiders.

Even small-scale privatisation has been difficult to undergo as the government has tried to destitute property to former owners. In Romania, too, the privatisation programme has been very slow and only recently, since the last political collapse, it has accelerated although many problem remain. Big enterprises are difficult to sell. Small-scale trade and services activity has been privatised as most of agricultural lands. An active policy towards foreign investors has been set up in order to attract in-flow of foreign capital.

Defining the control structure. A control structure can be divided between ownership and stakeholders. Among owners, there are in transition economies two kinds of owners, private and public. Private ownership is then divided into private business (family owned) and corporate enterprises (limited and joint-stock companies) either domestic, foreign or mixed in the case of joint-ventures between domestic and foreign companies. Ownership is exerted by different agents: outside owners (either independent persons or companies), inside owners (management) according to the kind of privatisation method favoured (distribution or sales at discounted prices to the management or workers)

As property rights are not completely stabilised and the financial constraints on firms are still soft if not anymore weak, different stakeholder positions can be developed, that is allowing to some groups not formally owners of shares to exert some power if the conditions for a well functioning capital market doesn't exist, which is the case in the three countries. Among stakeholders we find managers and workers who are not formal owners (or are partly owners) of shares but who are in a position to exert some kind of control, for instance delaying the restructuring, avoiding lay off of workers; they can gang up with bureaucrats in charge of monitoring the company or to organise the privatisation of the company. As in Western companies, specific factors can also help stakeholder position to develop, according the market structure, the concentration ratio, the dependence on suppliers and distributors, etc.¹

Distribution of ownership and control. The classical typology described by Berle and Means present a more accurate classification, which allows to integrate the relative powers of both owners and stakeholders. According to the classical criterion, corporations can be classified according to the following types of control: private control, majority control, minority control, control by legal device, managerial control according to the distribution and the concentration of shares.

¹ See N. Richet. *Economie de l'entreprise*. Paris: Hachette, 1994.

The managerial control can develop when there is a high level of dispersion of ownership. It is important to mention that, first, managerial control can be counter-balanced by the existence of a strong financial market. Second, in the transition, as many case studies have pointed out, managerial control can be a second best solution with a limited room for opportunistic behaviour. The management, following the shock of the transition, can adjust, first in the short term and then in the medium term by developing strategic decision in terms of unbundling of assets, investment, development of new products. Keeping in mind these two approaches, we can now see how the new property structure allow owners and stakeholders to behave.

Bulgaria. In privatised firms two forms of control are dominant: private and majority control. In the first case, outside control by owners is dominant; in the second case, the picture is less clear as managers either own shares of the companies in which they work, either are (and are) on the board of the company. In companies with well established property rights and a strong outside concentrated ownership, owners are in a better position to control and to monitor managers, to fire them, asking for more information than other companies of this type with dispersed ownership. It appears also that this kind of control has positive effect on the return on capital. Where fuzzy property rights predominate, even when the State is the only owner, firms are de facto managerial enterprises. It creates in a context of political instability, the possibilities for interest groups of different types to develop and to make more difficult the adjustment and restructuring at firm's level, at least in the short term. In other state-owned companies the government can exert an explicit control for instance in regulated industries. As a matter of fact, because of the dispersed ownership that has resulted from privatisation strategies (mass privatisation), or because managerial competence are scarce, there is some room, except where external control is strong, for some discretionary behaviour of managers. As it has been noticed, a strong financial pressure can to some extent, curb down this discretion and push managers to behave differently. Another interesting outcome is that where the management is associated to ownership and participates to the board, efficiency is greater.

Romania. Property in Romania has been split up among different categories of economic agents. Some state enterprises for strategic reasons have remained state-owned, other part of the state property has been distributed through a mass privatisation scheme. De novo firms have been created under the new laws. In big private enterprises, as the concentration of ownership has not yet started, the management has got the real power. Ownership is strongly spread among thousand or even ten of thousand of owners who are suffering strong asymmetries of information and face no incentive to exert control over the management. Another reason for the strong position of managers is that, generally, they have been appointed before the privatisation took place. Internal distribution of shares to employees has not contributed to curb the power of managers. A slow process of ownership concentration is taking place, both inside (between employees and

managers), and outside companies with the start of over-the counter activities. Concerning SOE which have been transformed into joint-stock companies but in which the government remains the sole investor, they generally lack of a clear vision about the strategy and the control. Last but not least, in companies where the Government has some stakes through the State Ownership Fund, its interest and ownership rights have to cope with the interest of other private shareholders, managers and interest groups.

Concerning managerial control, either formal or informal, there is a big difference in terms of autonomy concerning day to day, strategic and financial decisions. In private firms, their scope of initiative is much wider and more rewarding than in companies to be privatised in which the management is more defensive. Concerning employees' control, their control (through unions) is strictly associated to the kind of ownership. More a company is fully privatised, less there is room for developing autonomous behaviour and employees' strategy tries to be convergent with the management. Where managerial and ownership constraint is weaker, employees enjoy more freedom to defend their own interests. Another interesting observation is that when ownership is from outside of the company, managers and employees collude to maximise their utility up to a point which is compatible with the level of profitability expected by owners and lenders of capital (banks).

Albania. This country has experienced dramatic changes in the last decade, first, after the collapse of the communist system, and second, after the collapse of financial pyramids in 1997. The second crisis has probably swept all the efforts, which had been made these last years. In Albania, as it has been mentioned earlier, privatisation has been quiet easy to undertake that there was few things to privatise; on the other hand, the country has witnessed a rapid growth of de novo enterprises, mostly of small and medium size, especially in trade, transport and services, generally with a limited number of employees. These enterprises are run by their owners. Ownership and management are strictly merged, especially in family run companies.

In the case of joint-venture companies of totally foreign-owned companies, the control by owners is facilitated by the fact that, in most cases, top managers come from home company and that their duty, in Albania, is to increase rapidly the efficiency of the new venture. The process of privatisation of strategic enterprises will resume and will allow restructuring these companies whose management up to now is mostly defensive. In other companies, which have been privatised, control has remained under management influence and managerial risk aversion.

3. Enterprise Size Structure

One of the most significant changes in the last years in the countries from Eastern Europe have occurred in the size structures of the enterprises. The number of the enterprises has increased extremely fast and began to fulfil the low floors of the size structure.

Table 3. Number of enterprises in Bulgaria, Romania and Albania

		1991	1994	1995	1996	1997
Bulgaria	number (thous.)	78.5	455.0	508,4	342.3	447.8
	over 100 thous. inhabitants	914	5339	6064	4014	5375
Romania	number (thous.)	95,9	487.9	553.4	615.5	643.2
	over 100 thous. Inhabitants	421	2140	2427	2700	2821
Albania	number (thous.)	-	-	56,1	59.0	-
	over 100 thous. Inhabitants	-	-	1649	1736	-

Fastest the process of creation of new enterprises is in Bulgaria. This is due to the earlier creation of conditions for development of small and medium-sized business. Yet in 1991 the number of enterprises in Bulgaria per 100 thousands inhabitants is 2-3 times bigger than that in the other two countries and this ratio remains in the next years.

Everywhere in Eastern Europe the increase of the number of the enterprises has two sources - increase of the number of the state enterprises as a result of the dividing of the former big unites and the creation of new private enterprises. The first factor usually leads to the creation of 6-8 times more state enterprises in number. This is the case of Bulgaria and Albania. In Romania the process was carried out in two stages. At the first one - till 1995, was made a partly dividing which led to 2-3 times increase in the number of the enterprises. The second stage was made in 1995 for commercial companies and from 171 they have increased to 1480 in number.

Much bigger difference has the increase of the number in result of the newly created private enterprises. In the three countries this group was practically missing before 1989. The increase was fastest in the first years while in 1994 is observed a decrease in the rates though the absolute number of the increase remains considerably big. If we have in mind the experience of the Central European countries the verge of saturation beyond which the number of the newly created enterprises will be approximately equal to the number of the failed ones has not reached yet.

The size structure of the enterprises also changes very fast and more and more reaches the normal pyramid with wide base. The specific for the three countries is the big share of the middle-sized and big enterprises. The main reason is the

heritage from a few decades of a policy of building big and medium-sized plants. Nevertheless in the future we can expect processes, which will lead to a decrease in their number and their share. The process of firing the overemployed labour force which will lead to moving part of the enterprises in lower size group has not finished yet.

After the initial dividing it is normal to expect in middle-term period an increase in the sizes of the enterprises, made on a market base - by mergers, takeovers, unions. Therefore the expectation for a normalisation of the number of the middle-sized and big enterprises has its reasons.

Another specifics is the small number and share of the small enterprises (10-50 employees). The reason is that the newly created private enterprises are mainly micro enterprises. It is possible that part of them to increase their sizes but this takes time and normalisation of the economic conditions. This natural process of growth can be fastened by a proper industrial policy.

4. Market Structure

In this study our interest in the market structure is provoked by the searching of an answer to the question whether there exist big enterprises with big market share and a relative market power in the relations with their competitors. It is known that in the beginning of the reform period the production in the three countries was strongly concentrated. Even in Albania despite the small sizes and the closed character of the economy the enterprises with over 2000 employees were 6% of the number of the enterprises and 28% from the employees.

One of the first measures were directed to the dividing of the enterprises to their basic parts which led to a few times decrease of the market share of an enterprise. This process was executed stronger in Bulgaria in the first years of the transition while in Romania with such strength it was executed in the last 2 years.

Despite the dividing of the horizontal units of enterprises in each of the three countries they remained strongly concentrated by branches. The main part of them is in the primary sector. These are branches, which are subsidised, where there are price regulations, which are last privatised, where the entering of outside investors is difficult. Therefore the branches from this sector are typical as an illustration of monopolies and market power.

More difficult is the situation in the processing industry. In some of its sub-branches there are big producers even in 1995. In Bulgaria for instance, they are Balkancar, Bulgartabak, which production exceeds dozens of times the needs of the domestic market. But those companies work in a competitive environment of the foreign markets. Also the barriers for entering in the processing industry are not so high. These two factors change the conditions in which the big companies work.

The strongest is the influence of the last factors upon the enterprises in Bulgaria - the share of export in the total production of the studied enterprises is about twice bigger than in Romania and Albania. Still remains one group of enterprises, which keep their monopoly position. These are the biggest state enterprises from the primary sector and the chemical industry and more seldom from the engineering.

We can conclude that in the three countries are made sensitive changes to decrease of the market share and the market power of the former big state enterprises. The weakest are changed the conditions in the primary sector and different sub-branches of the processing industry (chemicals, engineering, etc.).

5. Government - Firm Relations

In the period after 1990 in the three studied countries - Bulgaria, Romania and Albania a process of further withdrawing of the state from a direct interference in the work of the firms is going on. This tendency is valid for all East European countries but in each one it is carried out with specifics, determined by historical, political and other factors, including national and regional business culture.

The first question, which must be solved, is about the legal status of the state enterprises. In Bulgaria earlier than in other countries was introduced a Commercial Law (1991) where the legal status of the state enterprises was similar as that of the private enterprises. They were transformed into Limited Liability and Joint-Stock Companies.

In the other countries (Romania and Albania) in the first years there was a separate legislation for the state enterprises. There are also special institutions for monitoring and direct control of these enterprises. In Albania this is ERA (Enterprise Restructuring Agency) which is created in 1997 and aims to lead the restructuring of the 32 the biggest Albanian enterprises producing 40% of the industrial production of the country.

In Romania there are State Ownership Funds (SOF) which own 70% of the ownership of the state enterprises. The Government creates also a program by branches and sub-branches for restructuring of the enterprises which is carried out by the branch ministries and other specially created institutions.

Practically we see the carrying out of two models of control and restructuring of the state enterprises. Unfortunately the both models showed more weaknesses than advantages. In Bulgaria - fast dividing, separation of the old horizontal complexes, maximum increased number of independent economic entities, combined with the withdrawing of the state from the control of its own enterprises.

This happens in the conditions of semi-market environment, which cannot discipline the enterprises. In Romania and Albania - special attention, direct control from the state which at this stage reaches not only the semi-hard budget limits and does not dare to carry out to the end the financial restructuring of the enterprises.

Further we study the relations between governments and state firms in the following three directions - subsidies and dotations, financial condition, liquidation of the firms.

Subsidies and dotations. The total volume of the subsidies and dotations from the state budget is big in the three countries. In Bulgaria it is 1,75% (1994) and 1,22% (1995) from the incomes of the enterprises. Only in the transport it is bigger - 4-5% from the incomes. The governments of the three countries try to reduce the volume of the direct support of the enterprises. For example in Romania they are temporary and each year their volume and direction is decided. In Albania in 1993 exists a veto for the ministries to subsidies the enterprises. But through ERA state funds are given without return on individual plan for restructuring and privatisation of the enterprises.

In the three countries the main part of the state subsidies goes for one and the same branches and sub-branches. In Bulgaria 76% in 1995 are directed to electro- energy, coals, transport. In Romania - to coals, non-ferrous, radioactive products. In Albania, the share of the primary sector (mines, steel, electro-energy) in the subsidies increases from 32% (1994) to 81% (1996). The smallest share in 1994 is due to the fact that almost 58% of the subsidies have been directed to the textile, leather, show industries, while in 1996 their share decreases to 8% from the total volume of the subsidies.

We can conclude that the subsidies and dotations in the three countries are characterized with the following common features:

- ✓ they have considerably small share;
- ✓ their volume continuously decreases;
- ✓ they are directed mainly to a few sub-branches.

Financial restructuring. In the three countries there are programs directed to improvement of the financial condition of the enterprises. In Bulgaria the program is accepted latest (1996) under the influence of IMF and includes 36 enterprises which have the highest degree of decapitalization. In Romania, the control upon the enterprises with hard financial condition is carried out in the frames of the existing institutions. In 1993, 20 companies are at special regime, in 1994 - 200 and in 1995 - 144. In Albania, the measures for financial recovering are carried out mostly from ERA.

In the choice of the enterprises usually a combination between a minimal number employees and maximum share from the total losses of the state sector is searched. For example in Bulgaria the enterprises included in the program have 3% from the employees and 30% from the losses of the sector. These are strongly decapitalised enterprises - the size of their debt overcomes 2-3 times the value of their assets. A decision is usually searched in privatisation, financial recovering or liquidation. In the three countries there have been achieved positive results which still have quite limited range, e.g. they did not lead to a decisive change of the condition of the

state sector as a whole. Neither in one of the three countries the programs are entirely fulfilled.

The common features we can withdraw from the analysis of the financial restructuring are the following:

- ✓ there are programs for improvement of the financial condition of the state sector;
- ✓ they range a few number of enterprises which are in the heaviest position;
- ✓ the execution of the programs goes hard, success has been achieved, but they have limited range and importance.

Liquidation of the state enterprises. In Bulgaria, Romania and Albania there is a legal base for executing of normal procedures for liquidation of the losing enterprises - special laws or separate chapters in more common laws. In reality the opportunities provided by the legislation are used quite limited.

In Bulgaria, 44 losing SME with totally 1000 employees are liquidated. In Albania in 1995, are liquidated totally or partly 6 enterprises with special decree of the president of the country. It seems that in Romania the liquidation is carried out considerably in bigger range - in 1995 are liquidated companies that have 10% of the total state-owned assets, in 1996 the closure of the enterprises has led to the firing of 51 thousands employees. But this is considerably fuller implementation of the procedures of liquidation compared with the other two countries. The achievement is still far away from the needs of the Romanian economy.

As a whole we can conclude that the existing legal base is not used completely, liquidated (closed) are small number enterprises, in most cases on special programs, but not as a result of carrying out a normal legal procedure.

The total conclusion is that in Bulgaria, Romania and Albania there are ineffective government-firm relations. The financial restructuring is carried out partly and inconsistently. The specifics are rather in the form but does not change the total conclusion about the ineffectiveness of the control upon the state enterprises in the three countries.