ИНСТИТУТ ЗА ИКОНОМИЧЕСКИ ИЗСЛЕДВАНИЯ НА БЪЛГАРСКАТА АКАДЕМИЯ НА НАУКИТЕ
ИКОНОМИЧЕСКИ ИЗСЛЕДВАНИЯ
ECONOMIC STUDIES

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NATIONAL CG CODEX OF BULGARIA: PERFORMANCE UNDER THE CRISIS

The paper is based on building up a Matrix of concurrence – a specially devised instrument using in details the OECD Principles, White book and the two ROSCs for Corporate Governance in Bulgaria. It gives an opportunity to evaluate the degree of concurrence of Bulgarian code to the international standards and to make some suggestions. The overall results show a high level of concurrence. Regardless of some differences the Bulgarian code covers well, the basic set of standards and practices typical for the modern CG. A number of detailed comments and recommendations resulting from the Matrix provide ground for a discussion targeted on improvement of the Code.
The other set of issues addressed in the paper consist of the methodology for assessment and the process of application of the Code. It is based on the scorecards filled up by a small sample of firms and show the widest and the narrowest applied CG practices and provide chance to compare them by sectors of application. The general conclusion is, that the best practices, both with mandatory and prescribing character, launched in Bulgarian CGC are widely applied. There are a lot of practices with excellent application as well as some with yet difficult endorsement. Although, the latter do not challenge the overall performance of the code and rather show the process in development.
JEL: G32; G34; G38; K22

1. Introducing the problem of Corporate Governance Codes (CGC)

The emergence of the Corporate Governance Codes (CGC) for good governance practice has been a long-term developing process, encompassing many peace mall steps. It started through various proposals on a case by case basis, launched mostly, after occurrence of certain disastrous events in the corporate world, showing one or another important breach in the system.

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1.1. CGC Predecessors

Cadbury Report (1992)

Cadbury Report is perhaps the first big answer of a major corporate governance failure; after years of forged financial reports, a then important UK company went insolvent with the colossal (by the then standards) debts of £1.3bn. In response, a committee was set by the Financial Regulatory Council (the UK independent regulatory body on CG issues), the Stock Exchange and the accounting profession. Initially, it was targeted on improving the reporting standards, but the evolving of more severe scandals, like Maxwell Communications financing, through diversion of resources from the pension funds of Robert Maxwell's companies, pushed the committee, chaired by Sir Adrian Cadbury, to expand its area into corporate governance generally.

The final report covered financial, auditing and corporate governance matters, and made the following three basic recommendations: a) the CEO and Chairman of companies should be separated; b) boards should have at least three non-executive directors, two of whom should have no financial or personal ties to executives c) each board should have an audit committee composed of non-executive directors.

These recommendations are today into the core of any sound CG Code, but initially were seen as highly controversial. Hence, when they were appended to the Listing Rules of the London Stock Exchange in 1994, it was made clear, that those are not mandatory rules, but ones which required an explanation in case of not compliance.

Greenbury Report (1995)

Shortly, after privatization of some utilities, a public anxiety sparked over the spiraling executive pays there. Thus, another committee, chaired by Richard Greenbury was set up, proposing more new ideas to enrich Cadbury report: the remuneration committees at corporate boards to be composed without executive directors, and also, the chairman and the directors pay to be a performance related and disclosed in the company accounts and contracts renewable each year.

Hampel (1998) & Turnbull (1999)

Since Greenbury recommended revisions of the CG observance each three years – the ICI managing director R. Hampel chaired the third committee and the report with his name suggested that all the Cadbury and Greenbury principles be consolidated into a "Combined Code" and offered some more recommendations – seeing the Board Chairman as the "leader" of the non-executive directors and "asking" institutional investors to vote the shares; the compulsory voting was rejected.

Perhaps, the most lasting result was the rejection of the idea for UK following German practice for separation between the supervisory and managing boards. Next year the Turnbull Committee Report added further to the reform, requiring directors be responsible for internal financial and auditing controls.

Many more reports were issued through the next decade, including Higgs review responding to the problems caused by the Enron collapse. Paul Myners also completed two major reviews of the role of institutional investors for the Treasury, whose principles were also found in the Combined Code. The collapse of Northern Rock triggered Walker Review report, which focused on recommendations for banking industry, and wider, for all companies.

The Sarbanes-Oxley Act of 2002

In the United States, the process also took serious development and its peak was the Sarbanes-Oxley act, named so after names of its promoters. In fact, that is a US Federal Law, which postulated a better CG standards for all U.S. public company boards, management and public accounting firms. Again, it emerged as a result of major case of abuse of the standards for best accounting and financial practice, including Enron, Peregrine Systems, WorldCom and others. The Act elaborated on CG practices and rules: *Auditor conflicts of interest; Boardroom failures; Securities analysts' conflicts of interest; Inadequate funding of the SEC; Banking practices; Executive compensation.*

The Act had a very broad field of application, requiring further SEC reports and regulation, but at the same time its implementation took a lasting period of time. Some of its stipulations influence the bigger and the smaller companies disproportionally and some of them are considered relatively costly. Nevertheless, it is the most comprehensive attempt, in the US corporate law, to enhance the corporate governance practice.

National Codes – German (2002) and UK (2003)

Meanwhile, Germany has appointed a State CG Commission in 2001 and launched a specifically targeted German Corporate Governance Code in February 2002. Main goal of the code was to make corporate governance rules more transparent for the investors, and further to consolidate the confidence in the German corporations. The Code addresses all key issues relevant to the German CG: shareholder interests; the two-tier system of executive board and supervisory board; transparency of governance in German companies; the independence of German supervisory boards; and the independence of financial statement auditors.

In that sense, the Code, resembling the Sarbanes-Oxley Act, is the most comprehensive pile of good practices, recommendations and standards to follow, in German practice. Its application has been monitored constantly by the German CG Commission, which remained in existence and, at least once a year, may propose amendments to the Code.

The UK CG Code was long know as a “Combined Code”, a name given to it after Hampel’s report, which suggested combination of the two previous major reports. Moreover, its full-fledged functioning was empowered with the inclusion of the Turnbull, Smith and Higgs reports guidance, done in 2003. It was further developed in 2005, 2006, and up to the 2009, when FRC issued a report on effectiveness of the Combined Code, which summarized the results of the consultations and research carried out. The London

Stock Exchange also published its review, noting the effectiveness of the Code, and proposed suggestions for improving of its operation.

Finally, next year (2010), the Financial Reporting Council, issued further amended code under its current name – *UK Corporate Governance Code*. Besides the changes in the governance standards themselves, the reason for shifting the name is the exclusion the matter of institutional investors from the Code, and issuance of another regulation – called UK Stewardship code – in order to deal with that matter. Thus, the UK Code has, perhaps, the longest, and richest development history, initiating and originating many of the current top-standards in the best corporate governance.

1.2. Importance of the codes

National CGC have a multi-dimensional, long-term importance determined, not comprehensively, by several features:

<u>Addressing the key companies' issues</u>

First of all, this instrument *takes down* the real process of improving corporate governance at the firm level. Many important steps were done, in all of the developed countries, but prior to introduction of national codes, they were, more or less, macro-level regulations. Firms, often, restrict themselves in following the law and their decision depend on the maturity and understanding of its own management, which introduces in the system a huge deal of "variety" and "specificity". Eventually, the process ends with asymmetry and asynchrony in corporate responses, while some important areas are left completely outside those activities.

The Codes encompass principles and create criteria, standards, for applying the practices for *"good"* CG. Those practices are meant to persuade the investors that *"what they see is what it is"* in the companies they intend to invest.

<u>Volunteer and Flexible Base</u>

Second important feature of the codes relates to their application – they are supposed to be volunteer. There are two moments here – the first one is, who applies the code – in most cases, after the particular Stock Exchange makes it enforceable for one or another group of issuers, they need to address its application in their activities. And here, it comes the second moment – addressing the codes does not necessary mean complying with the code. Alternatively, the companies have the option to avoid one more of its stipulations; although they have to provide an explanation why they do not apply the rule, whether it is detrimental, or impossible, or whatever else reason they may have.

This is the so called *Comply or Explain Principle* and it plays very important role in the Corporate Governance. This principle makes codes volunteer and flexible and provides for best fitting the particular interests of a firm in the broad CG frame.

The Confidence Eroded By the Crisis

The global financial and economic crisis created another dimension of the CGC importance. Since, for many countries in the world, the crisis emerged as one of the confidence – this particularly true for Bulgaria whose economy was thriving quite well in all the 2008 – those countries need to find a way to show that their banks and companies are transparent and trustworthy. And the shortest way, for a country to achieve such confidence, goes directly though a better and broader application of the best governance practices.

1.3. Role of the CG Codes

The national CGC are expected to guarantee the compliance of the core businesses in any market economy with few very fundamental principles of conduct. This related at first place to the public companies, but the more and more, it becomes applicable to some other important economic groups of enterprises, like the state-owned big companies or non-public companies with exclusive role, like banks, insurance companies etc.

Setting of Effective CG Framework

The most basic of those principles is, that any modern system of CG should not contradict the normal functioning of the market economy. That system need to serve the efficient and transparent markets and to account for its implications of the market stimuli and market integrity.

Backing the Rights of the Shareholders

That principle requires creation of standards backing the rights of the shareholders, in terms of being informed, being allowed to raise questions before the Corporate Boards (CB), and to place issues in the agenda, and to propose resolutions for the General Meeting (GM). It is the same principle, which assure that the shareholders need to have rights in the nomination, election and determination of the remuneration of the high-ranks in the corporation. Recently, the principle was enriched to encompass the right of the shareholders to vote in absentia (provided the appropriate mechanism is in existence). (OECD 2004, II, C).

Ensuring the Equal Treatment of Shareholders

Equal treatment of all the various, in terms of size and nationality, shareholders is raised to the fundamental principle of the modern CG. And this includes the opportunity for the investors to substantially assess the rights assigned to any class or group of shareholders before actual act of investment in the company. And even more, the present day CG postulates that any rearrangement of the mentioned rights need to be done upon agreement by the affected shareholder classes.

Providing for the Stakeholders Rights

The current economy is subject not only of the globalization, but it is also contingent of extremely strong interlocking connections between all the agents in a certain production process or territory. That brings to existence the CG principle, which appeals for accounting of the interests of all the stakeholders in a company and not just of the shareholders, even if they are recognized not on a legal rule, but just on a mutual agreement.

Further, modern CG principles involve *Supporting the transparency in the company; Outlining the role of corporate boards and determining their key functions* etc.

2. Bulgarian Code

The national CG Code of Bulgaria (BCGC; the Code), has been created in 2007, by large group of specialists including representatives of BSE-Sofia, business, academy, NGO-s and others. Generally, it is based on the OECD Principles for good corporate governance and has some history of its development.

The latter includes the first *Report on Observance of Standards and Codes (ROSC): Corporate Governance,* issued under the auspices of the World Bank in 2002 (ROSC 2002). Although, the national Code was not the issue in the report, it suggested a vast number of improvements and amendments of the national CG legal framework.

Another major thrust for BCGC was the so called *White Paper for CG in South-Eastern Europe* issued in 2003 within the initiatives of the Stability Pact. Among the other Balkan countries, it included Bulgaria and placed a lot of tasks for the implementation in the field, summed in 41 priorities. Priority no. 26 required creation of series of instruments and initiatives for a better culture of the corporate governance, which included at first place the national codes in the countries of the Pact (Stability Pact 2003).

The second World Bank *ROSC* (2008), evaluated the policy framework for CG in Bulgaria, pointed out the recent improvements in the legal regulations, made policy suggestions and provided to the investors, a benchmark for CG appraisal in the country. The process of setting out the BCGC was completed in 2009, when *the Bulgarian Commission for CG* - first such an institution in the region – was structured. It received as a major goal, monitoring and further improvement of the code.

Structure and the Span of the Code

Bulgarian code is based on the liberal tradition, which means very limited bunch of mandatory regulations; they are concentrated mostly in the few areas.

- Disclosure of information (covered in Securities law).
- Insider trading and market manipulation (in special law).

- Fiduciary duties of the Board and Avoidance of Conflict of Interests of the Board Members (Securities law).

In most of the other areas, the Code follows the already well established approach of volunteer application of a large circle of standards and best practices known as the "comply or explain" principle.

In fact this volunteer characteristic, has two different aspects in the BCGC, which need to be explained. Firstly, the code determines which companies are subject of its application; it is not in the body of the Code itself, but its endorsement by the BSE compelled the companies traded on the „A" и "B" segments of the Shares Official Market to comply with it *(BSE 2000).* For the other listed companies, the Code is recommended, but if a company once declare observance, it becomes mandatory for it, as well.

Here, it comes the second aspect – declaration for compliance does not make the compliance automatic. The company may decline application of one or many rules of the code; in theory, it is possible to decline all of the rules. In fact, some companies do decline and some even persist in that. Although, the above principle require them to explain why they do so. As long as, there is no sanction for such a behavior , "comply or explain" principle provides just a transparent environment for the investors and, because of the intercompany comparison, a strong, but "soft" stimulus for compliance.

It is worth noting, that the Bulgarian variant of the CG Code encompasses some weak points. First of all, there is not a general rule, what might and what might not be violated, i.e. the mandatory regulations, mentioned above, are not comprehensively included and, when they are included, their mandatory nature is not emphasized by an explicit language or else. To mention just for comparison, the German CG Code, uses three different conventions, indicating the degree of necessity for compliance – should, might and must.

The reason for that was, the strive not to repeat the existing elsewhere norms, and to not overload the code, but in fact some of them were included, and more generally, this "conciseness" of the Code, to some extend, contradict the perception for the code as the best CG "guide" for investors.

Second point to be regarded in a further development of the Code is, the lack of kind of "annotations" alongside the principles. Those annotations provide depth and multiversity of the choice of the standards for application, which is, at least on my opinion, an evidence of enhanced volunteer regulation.

The BCGC encompasses five chapters and covers, broadly, the areas launched in OECD Principles and other national codes (see GCGC 2002), but with some differences. First chapter deals with corporate boards (CBs); third with the shareholders rights; the forth with the info disclosure. The second chapter is slightly distinct; it offers treatment of the internal audit, which is normally part of the disclosure area; the fifth deals with the conflict of interests as an outstanding problem, which is also result from the recently increased importance of the problem recently.

Looked more in detail, the BCGC structure is actually closer to the international standards, than it seems at first glance. For example, the boards section treats them twofold – on one

hand – the companies with a single board and on the other hand the two-tier governance firms. Although, the way of this treatment is basically equal, and relates to the same circle of relations; this “doubleness” is targeted just to meet the Bulgarian specific corporate structure.

Another, interesting feature of BCGC is, that it aggregates altogether the functions and duties of the boards; that leads to aggregation of differing in terms of importance and weight, characteristics of those boards. Among the functions, prescribed to the Bulgarian companies, priority is given to the requirement, that boards activity should be led by the vision, goals and strategies of the company and by the interests of the shareholders. Thus, the Code, apriori, adopts a coincidence between the interests of the shareholders and the company, which might be found also in the Principles (2002).

At the same time, the already mentioned lack of the “annotating” texts might provide a good opportunity for presenting as a *company* interest, a *group* one, quite distant from the interests of the shareholders as a whole.

Special place, occupies the function about management and control of the risk, which rightly became a focus after outbreak of the financial crisis.

BCGC follows the best practices in the CG asking for provision of enough independent CB members for a good performance (i.e. it goes beyond the law requirement), for separation between the positions of the Board Chairperson and the CEO, for provision of improved qualifications of the members, for their “sufficient” engagement to the board responsibilities, including pointing out the *acceptable* number of boards to serve in.

Special place is provided, in the Code, for standards regulating the form and the level of board remuneration. The Code well defines the problems associated with the conflicts of interests. It advise creation of special committees to the appropriate boards and emphasize the requirement of creation of audit committees.

The chapter devoted to shareholders actually joins two problems (at least according to the OECD Principles), that for the basic shareholder rights and that for the structure of the ownership, with its CG implication. Although, the issues are well covered, this “junction” might be seen as a weakness of the Code, provided the strong specificity (i.e. heavy concentration) of the Bulgarian ownership (see Prohaska and Tchipev 2000; Петранов 2002).

Concurrence with the international CG standards

The very important role of the national codes for developing of the modern standards and practices in any country, raises the question about the degree of its concurrence with the international principles and standards. To investigate that issue, we devised a special instrument called *Matrix of concurrence*, which let the opportunity to compare text by text the norms in BCCG and the OECD Principles. Since, this is quite elaborated and detailed analysis, we will skip it and will just offer more general conclusions.

Generally, the results from application of the *Matrix* show quite high degree of concurrence of BCGC to the most widely applied international standards in corporate governance. Where it deviates, it is due to the national specificity and/or could easily be corrected, if this is considered necessary.

As mentioned, the Code envisages limited mandatory, and vast majority, of volunteer standards. Among the first, it follows the OECD Principles in outlining the fiduciary duties of board members both as the due diligence and as the loyalty, though the determination has some specificity. In Bulgarian case, the object of loyalty is the *company* itself and the shareholders are not mentioned. Alternatively, in the same circle of relations, the avoidance of conflicts of interests is normatively sealed. As long as they emerge, the legal norms ask their disclosure and ban the possible influence of the involved persons in taken decisions.

Proposals for improvement e.g. broadening and précising definitions etc.

In general, Bulgarian code envisages the expected high level standards, and even in some cases is above them, like for example, the requirement for equal treatment of all shareholders, which is not just stated, but also backed, by entrusted responsibility for its implementation to the corporate boards. Although, there are some cases which need a further enhancement or, at least, discussion; the following is an outline of some proposals in that matter:

- enlarging of shareholders rights definition in order to include *the right of information*, as a basic one;
- rearranging of the best practice asking full participation of all board members in the General Shareholder Meetings (GSM);
- defining of a standard for minimum information needed to be furnished to the shareholders in order to secure their effective participation in GSM;
- clearing the meaning of *term "cooperate"* in regard of case when the corporate boards have to secure shareholders right to place questions to the management or GSM;
- enlarging of the definition for voting in absentia (e.g. to include by mail);
- defining practices for disclosure of the procedures leading to transfer of control;
- launching a discussion for the role of the so-called anti-takeover policies;
- launching a discussion for the need of specific CG policies for the fiduciary institutional investors;
- defining of the right of reimbursement in case of violated minority shareholder interests;
- launching a discussion for differentiation between the information standards and the channels of its distribution;
- enhancing the principle for treatment of disclosure of the risks.

The last proposal concerns the definition of the corporate boards functions – they are not treated separately from their competencies, which leads to some underestimation of some functions; the *Matrix of concurrence* suggested that a possible separation will provide for better definition.

3. Application of the BCGC

Regardless how good is the network of the best CG and standards, the crucial point, always is the implementation. In our case, the importance of the realization depends on the CG framework itself; it is too complex – involves a lot of parameters and many agents and institutions. Plus, the two, well-known in the microeconomics, types of behavior: shirking and free-riding. Last, but not least, the delicacy of the matter; neither the supervisory bodies, nor the CG Commission, may interfere the issues concerning remuneration, nomination, and selection policy and/or the fine intra-company relations between the boards. All this is left to the volunteer decisions of the company.

That importance raises the issue of measuring the degree of observing the proclaimed standards and best practices in its full acuteness.

3.1. The score-card (overview)

Currently, the role of measuring device in Bulgaria, is played by the so-called *score-cards*. This is a tool, originating from Germany since 2000, where it has been applied as a benchmark for assessing the companies' management. The active support of the Global Forum and the advisors of the International Finance Corporation provided for its large distribution (CGS-VTCIR 2011).

Bulgarian version is a result of successful cooperation between its national CG Commission and the German State CG Commission.[2] It encompasses 49 criteria (questions) [46 for the companies with the single board] for assessment. Each answer might receive 3 possible values k =1, 0.5, 0, depending on the degree of performance of the relevant criteria (100, 50 or 0%).

Sector (partial) score

The criteria are divided by sectors, following approximately the appropriate divisions of the Code; some sectors are twofold – one set questions for the single-tier boards (Anglo-Saxon Board of Directors with both Executive and Non-executive members) and one set - for the two-tier boards (German Supervisory and Management Boards). This is actually formed into two modifications of the scorecard one for the 1-tier and another for the 2-tier companies, but as the questions in their vast majority are not different but just rephrased, in

[2] Christian Strenger, a member of GSCGC, launched the original methodology of the card and contributed further for its adoption and endorsement.

this paper we evaluate them as a single unit, making the appropriate concessions when necessary.

The number of criteria varies between the sectors, (3÷10), and each criteria receives it own specific weight for the sector (w_i); the weights are often (but not always equal.) Thus, a partial (sectional) score (S_j), for the sector j, has been received:

$$Sj = \sum_{i=1}^{n} k_i w_i$$

where: i – criterion, n=3,4,5 … 10; w_i – weight for criterion i and $w_1+w_2+ ... +w_i$=100%.;
k – value of the criterion i, k=(1; 0.5; 0)

Final (Standard) Score

On its turn, each sector has its own weight; again they are often (but not always equal) depending on the evaluating agent perception for the importance of each of them for the CG in the particular country. The table 1 shows those sectional weights; next column shows those of the German scorecard for comparative reasons.

Table 1

Scorecard for CG in Bulgaria and Germany (sector weights, %)

	BG	DE
"Management board" [W_1]	10	20
"Supervisory board" [W_2]	10	45
"Inter-board (2-tier companies case) or Intra-board cooperation (1-tier case; exec. to non-exec. members) " [W_3]	10	-
"Audit & Internal Control " [W_4]	20	7
“Shareholders Rights” [W_5]	20	12
" Disclosure Info Practices" [W_6]	20	16
“CG Engagement (including the Stakeholders issues)” [W_7]	10	-
Sum	100	100

Source: data for BG from the scorecard and for DE from the (CGS-VTCIR) 2011.

Thus, the final score G_A for the company A might be obtained by the following formula:

$$G = \sum_{j=1}^{7} S_j W_j$$

where: Sj – partial score; W_j – sectional weight, j=1,2,3 … 7 and $W_1+W_2+... +W_j$=100%.

The Data

The general population of companies subject of the analysis (Feb 2011) was about 15% percent of about 300 listed issuers on the BSE which seems satisfactory having in mind that the actual number of liquid issues, out of the whole population, is much smaller, but steadily rising.[3]

Within this pool, just few firms filled-out score-cards, still a volunteer instrument, used mainly for rating purposes.[4] This limited further our object of the analysis, shaping it more as case study, than as a survey – so, we ended with 15 companies (about one third of all which supplied scorecards by Feb 2011). We aggregated the results, since our interest was which principles acquired more adherence and which less, but not intended to interfere the process by showing "the good and bad guys".

3.2. Results

Average score of the sample is 92.5%, and card with minimum has 82% score, and the card with maximum – 99%. This is quite a high result, much higher than the predicted one. For comparison, in the German case, the actual result is a rather smaller – about three-forths of the full score (100%) is being acquired on the account of the criteria which are not subject of deviation. The rest (about 25%) has been devoted for a precise selection of the companies, which apply more from the practices and standards.

In Bulgarian case, the lack, in the Code, of clear emphasis on the mandatory practices, implicitly poses all practices as highly required for companies. And they strive to cover them all, which inevitably leads to higher scores.

Moreover, another country-specific feature, many of the questions have highly arbitrate character. Just to illustrate, the question evaluating the cooperation between corporate boards and stakeholders is phrased as "effective" interaction (BSE-Sofia 2011, VII.2). Although the "effective" is quite arbitrary, and the possibility for a "highly positive" answer is quite a high, and whole result is getting higher. Of course, a potential "field" entry in the interviewed companies might reveal certain dose of subjectivity, which is more or less "attached" to those kinds of instruments.

At the same time, this factor need not to be overestimated; there are plenty of specific questions (like that asking for presence or absence of the Ethical code (BSE-Sofia 2011, III.5 and III.6), which measure precisely the difference. Hence, the Scorecards might be taken as an indicator of the application of BCGC, especially if taken in consideration the pretty high homogeneity of the results – coefficient of variation is 5.46%. Good or bad, applying of the scorecard is just in its beginning and it will certainly improve in the future.

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[3] 55, already, in August 2011.

[4] A Stock Exchange index for companies with good CG practices was launched in 2011.

<u>Results by sectors</u>

The following table shows sector by sector how many are the criteria in any sector, what are the min max, and average scores and how many are the partial and non-implemented criteria in the sector.

Table 2

Assessment of Sector	Number of sector criteria	Cases of partially implemented criteria	Cases of non-implemented criteria	Average score for sector (%)	Max level of implementation (%)	Min level of implementation (%)
Shareholders Rights	9	9	1	95.2	100	80
Disclosure Info Practices	8	3	1	97.9	100	87
Audit & Internal Control	5	3	4	92.7	100	77
Engagement (Stakeholders)	3	2	3	91.1	100	73
Managing Boards 2-tier	6	4	6	86.7	100	60
Executives 1-tier	6	2	5	80.0	100	60
Supervisory Boards 2-tier	10	1	7	88.0	100	30
Boards of Directors 1-tier	7	0	8	77.1	100	20
Inter-board cooperat. 2-tier	5	2	2	94.0	100	85
Intra-board cooperat. 1-tier	6	0	3	95.0	100	80

This way, the results could be compared showing which sectors and criteria are more eagerly and which are more reluctantly complied, which is a good indicator of the “bottle-necks” in the code and might be used as a good start to investigate it.

<u>Summarizing the Implementation</u>

- High average level

As mentioned, the overall results are relatively high, but this could be attached to nationally-specific features and, perhaps, might be overcome once that found negative.

- Best performing sectors of CG

The highest scores are found in sectors revealing application of the disclosure principles, as well as the principles regulating the audit and the internal control. This seems logical, provided those practices are mandatory and praised, since they have a great positive impact on reputation of the applying firms.

- Worst implemented

Those are the principles regulating the corporate boards, which again is predictable, having in mind their volunteer and highly sensitive application.

- Some interesting sector results
- Relatively lower score for the practice of informing stakeholders

As found by the qualitative analysis, those practices depend heavily on company's own experience, their zeal to enlarge the field of social responsibility etc. and it seems normal if they show lower results. Perhaps, an aggravating condition is the perplexed formulation of the criterion and not surprisingly, here, is the lowest score of the sector.

- In the Audit sector, lower score for Rotation of the External Auditors and independence of Audit Commission Chairman (among the lowest in the Survey).

Both are among the most precise formulated, very concrete, easily verifiable standards, and at the same time, they require a considerable change in the existing practices, and the lower results are expected. Although, especially the second indicator, showing a 20% non-performance, among the lowest in the cluster, and even in the survey, are embarrassing to a certain degree. The case is that it may erode the *practice of creating audit committee itself*, since its application is meant to support the selection of an independent auditor.

- The sector showing the relation with the Stakeholders

The scores for identification and recognition of those agents are maximal, but the practices of accounting for their interests by established rules is much less implemented etc.

The sectors – Cooperation between the Managing and Supervisory Boards and between executive and independent members of the Boards of Directors - have the scores of 94% and 95% accordingly, which is an attestation for their functioning. For both groups of firms, the actual scores differ from the maximal ones. Hundred per cent application is shown by the practices concerning creation of the policies for disclosure, in all 15 cases, which again is an excellent attestation of the sector.

4. Conclusions

This paper is based on building up a *Matrix of concurrence* – a specially devised instrument using in details the OECD Principles, White book and the two ROSCs for Corporate Governance in Bulgaria. It gives an opportunity to evaluate the degree of concurrence of Bulgarian code to the international standards and to make some suggestions.

The overall results show a high level of concurrence. Regardless of some differences the Bulgarian code covers well, the basic set of standards and practices typical for the modern CG. A number of detailed comments and recommendations resulting from the *Matrix* are a good starting point for a discussion targeted on improvement of the Code.

The other set of issues addressed in the paper consist of the methodology for assessment and the process of application of the Code. It is based on the scorecards filled up by a small sample of firms and show the widest and the narrowest applied CG practices and provide chance to compare them by sectors of application.

The general conclusion is, that the best practices launched in Bulgarian CGC are widely applied, as those with mandatory, as well as those with prescribing character. There are a lot of practices with excellent application as well as some with yet difficult endorsement. Although, the latter do not challenge the overall performance of the code and rather show the process in development.

The started process of quantifying and evaluation of the application of those principles in the particular companies show, that its enrooting has been passed successfully and most of them are widely-spread; those with lower scores might be explained well with the gradual development of the process and partially with the national specifics. The results open an opportunity for further work both in practical direction through the suggestions made, and in direction of enhancing the methodology for measuring the principles application.

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