

CORPORATE GOVERNANCE OF STATE-OWNED ENTERPRISES: THE CASE OF HEALTHCARE ESTABLISHMENTS IN BULGARIA

The aim of the survey is to present the current situation of state ownership and its governance in Bulgaria. As a basis for good practices, the guidelines for corporate governance of state-owned enterprises by the Organization for Economic Cooperation and Development (2015) are used. The survey includes 65 healthcare establishments with concentrated state ownership.

The results of the survey show that the joint stock company and the sole ownership are preferred by the state due to their opportunity for control over the management of ownership. Regardless of the declared objectives of the state policy on social orientation of the healthcare sector, the data indicate that the priority of the healthcare establishments are mainly the financial results. The practices of corporate governance of state-owned enterprises are formed by three external factors: concentrated state ownership, social functions of state-owned enterprises, and the importance of healthcare for economic development.

JEL: G34; H51; I18

Introduction

In 2012 at the session of the WHO Regional Committee for Europe is approved a new health policy framework “Health 2020: A European policy framework and strategy for the 21st century”. The new point is the pursuit of a transformation from a state-centered to a collaborative model in which governance is produced collectively between a wide range of state and societal actors, including ministries, parliaments, agencies, authorities, commissions, businesses, citizens, community groups, foundations and the mass media. Unlike the classical concept, the new framework provides for the introduction of requirements to ensure accountability for the results of stakeholders, as well as transparency on current health policies. Notwithstanding the new moments, however, the role and responsibility of the state to protect and improve the health and well-being of people is retain (Houbenova-Delissivkova, 2012).

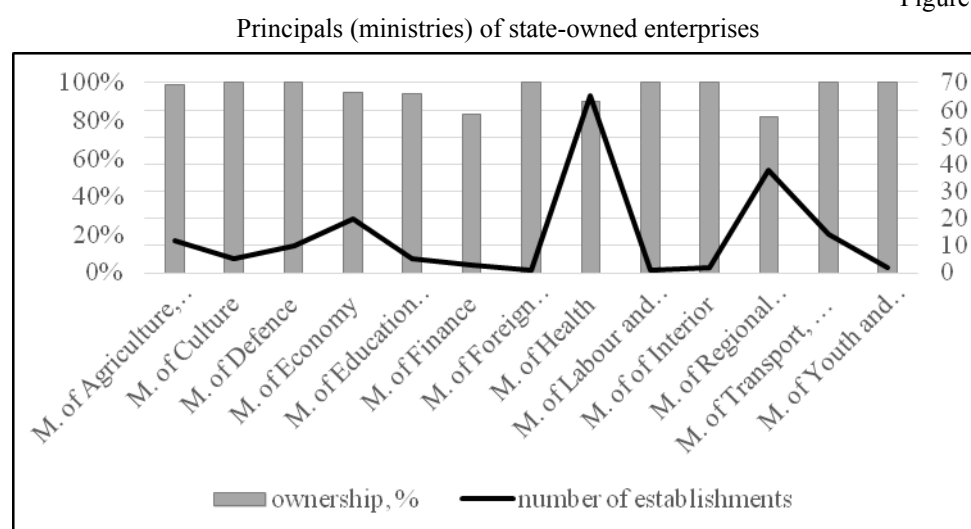
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Corporate governance of state-owned enterprises in the new reality

The new reality puts on the agenda the need to adapt corporate governance in a number of sectors, including in the field of healthcare, to the good practices. In this context, having regard to the effects of global financial crisis, the G20 countries, together with the Organization for Economic Cooperation and Development, decided to take action to modernize the guidelines for corporate governance of state-owned enterprises (Keremidchiev, 2016), for ensuring their effective, transparent and accountable functioning (Organisation for Economic Co-operation and Development, 2015).

The state ownership in Bulgaria is managed and controlled on a sector principle by relevant ministry. At the end of 2018 in Bulgaria the existing enterprises with state ownership more than 50% of equity are 178 and 13 ministries are majority shareholders or sole owners. The largest number of enterprises (65) has the Ministry of Health, which owns on average 90% of the ownership of enterprises. Such dependence is also observed in other ministries-principals – in increase the number of enterprises is decrease the share in their ownership (Figure 1).

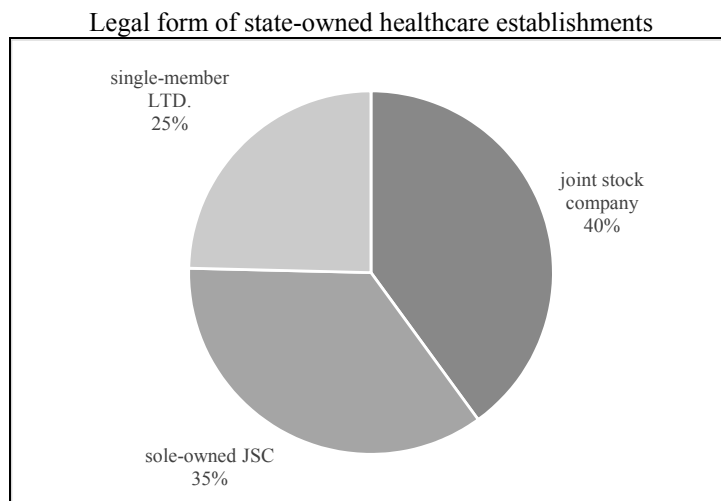
Figure 1



Source: Ministries' websites, September 2018.

State ownership is presented depending on the legal form of enterprises. The study found that in the case of healthcare establishments the joint stock company was the most preferred form, given the greater opportunities for control over the management of ownership (Figure 2). Most of the enterprises are sole owned and in other cases are co-owned by municipalities, mainly due to similar social functions of the state and municipalities.

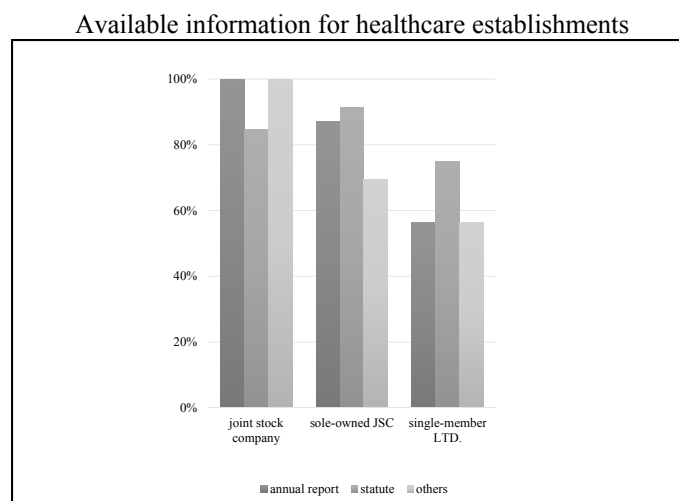
Figure 2



Source: Website of Ministry of Health, September 2018.

The sources of information when presenting the practices of corporate governance of state-owned enterprises are their annual reports and statutes, and some other documents (minutes of meetings of the board of directors, proposals of the principal, requests from minority shareholders for inclusion of additional points in the daily order of the general meeting, etc.). With regard to the legal form, the joint-stock companies are with most available information have, followed by single-member joint-stock companies and single-member limited liability companies (Figure 3).

Figure 3



Source: Commercial register at Registry agency, September 2018.

Corporate governance of state-owned healthcare establishments in Bulgaria under the Guidelines of Organization for Economic Cooperation and Development

I. Rationales for state ownership

In 2016, the Ministry of Health adopts the Action Plan for Implementation of National Health Strategy 2020 and defines as a priority „... the development of a fair, sustainable and effective health system, oriented towards quality and results...“ (Ministry of Health, 2016). To achieve this subject, a policy is needed to ensure the financial sustainability of the healthcare system based on improving financial performance by increasing employer's healthcare contributions as well as introducing measures to support the National Revenue Agency the collection of health insurance contributions.

State-owned enterprises have more than one objective, which is why they should be considered for both their economic efficiency and social efficiency. In this respect, our survey shows that most often the objective of individual healthcare establishments are properly set and are related to the improvement of medical services. At micro-level in small number of cases the objectives are justified by the understanding that healthcare is a tool to reduce negatives of transition period and to mitigate the effects of the global financial crisis, for example to attract and retain doctors in Bulgaria and re-establishing confidence in healthcare establishments regardless of their indebtedness (Nedelcheva, 2017).

II. The state's role as an owner

In Bulgaria, the laws provide every ministry to perform both functions at the same time - to own and to control. The principal (the Minister) appoint managers for three years. The terms and procedure for conducting the competition are approved by an ordinance of the Minister of Health. In the event of deterioration in financial performance and non-performance of economic indicators set out in the management or controlling contracts, the general meeting of shareholders may terminate the contract with the manager before the expiry of its term (*ad nutum*).

In order to achieve the main objective of state-owned enterprises to provide public goods, a leading factor is the remuneration of executive directors. Unlike private companies, managers of state-owned enterprises do not receive any additional remuneration when the share price increases. In Bulgaria, the state, as a majority owner, determines the composition of boards, including their remuneration. The composition of the board of directors is fixed – the number of its members is three members for sole-owned joint stock companies and five members for co-owned joint stock companies. Unlike other employees, managers can be released from their position without prior notice. The salary of executive directors is in line with the financial results achieved and for members of board the salary is in the range of 280 to 400% of average reporting monthly gross salary for particular healthcare establishment. The salary of board members shall be paid for a full year, and in the event that there is a change of board member during the year, no remuneration is paid for both the old and new member of the board. No remuneration shall be paid to members of the board who are representatives of the Ministry of Health in accordance with the

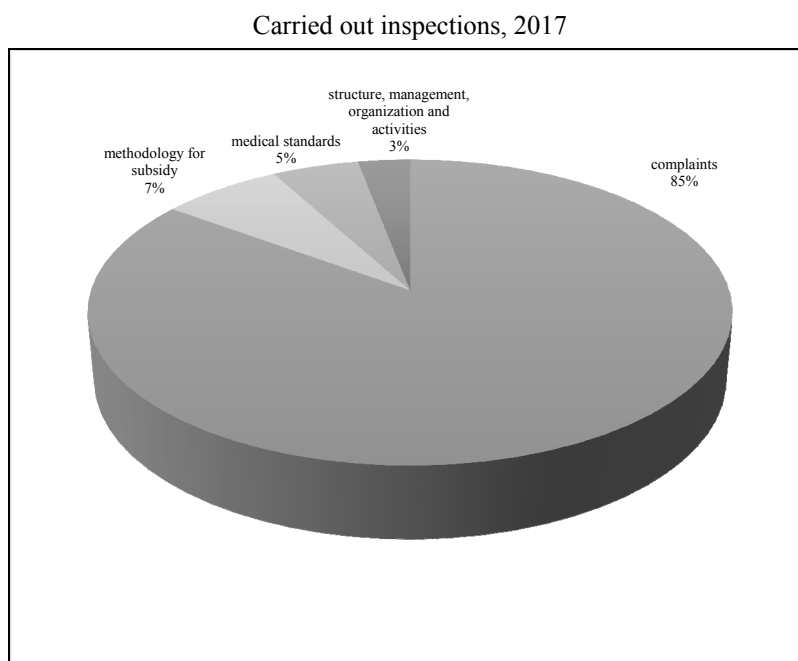
provisions of the Civil Service Act. In the case of single-owned joint-stock companies, the members of board provide a warranty for their management through a promissory note and, in the case of co-owned joint stock companies, in cash.

In Bulgarian practice, state-owned healthcare establishments - joint-stock companies have a statutory one-tier system of management. The number of board members is three for single-member joint-stock companies and five members for co-owned joint-stock companies. The usual number of meetings of boards for one-year ranges is from seven to 36, with a minimum number provided under the Commercial Law four meetings per year. Healthcare establishment managers are responsible for identifying the objectives, identifying the risks to achieving them, and introducing adequate and effective financial management systems, accounting policies and information provision.

The state, as a majority shareholder, determines the auditors, including their remuneration. In state-owned establishments, as opposed to the private sector, the auditors perform only audit but not advisory services (Tsvetanova, 2014). As a good practice, we should regard regular disclosure of auditor remuneration, which is usually between BGN 3,000 and BGN 6,000 (approximately EUR 1,500 and EUR 3,000) with VAT.

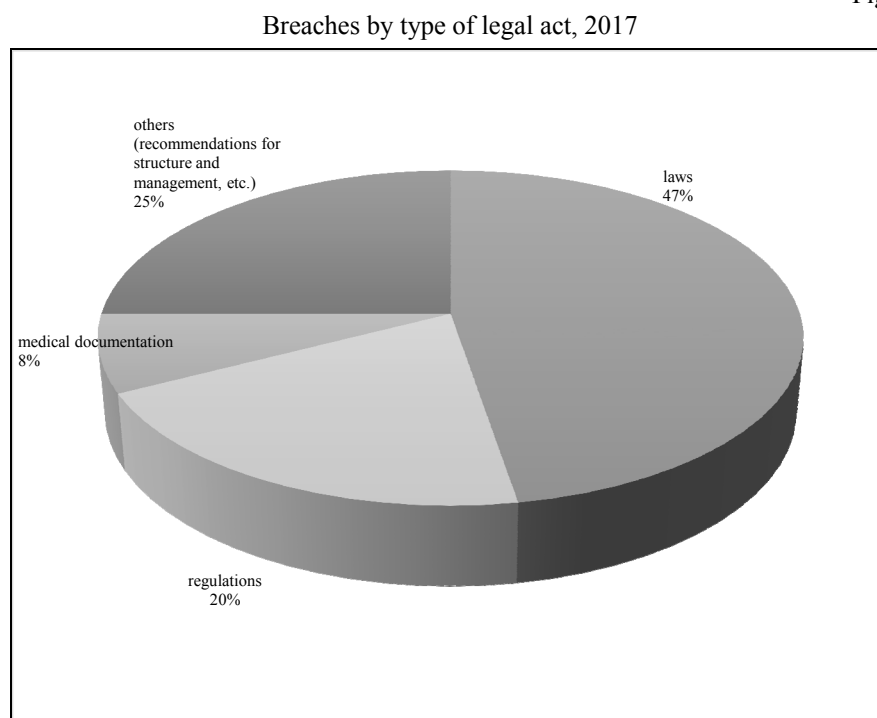
The Medical Audit Executive Agency carries out checks on the compliance of structure, management, activity and organization of medical services in healthcare establishments. In 2017, the share of carried out inspections on state ownership management is small (3%) (Figure 4), but has large proportion in the breaches found (25%) (Figure 5).

Figure 4



Source: Medical Audit Executive Agency, 2018

Figure 5



Source: Medical Audit Executive Agency, 2018

III. State-owned enterprises in the marketplace

All state-owned healthcare establishments are included in a list of companies, which not subject for privatization. Since 2002, only the Privatization agency has the right to change the list.

In Bulgaria, the Ministry of Health performs two roles: as an owner and a supervisor. A number of competent authorities are entitled to exercise control over state-owned enterprises: the Medical Audit Executive Agency, the Medicines Executive Agency and the National Council on Prices and Reimbursement of Medicinal Products. At the same time, the Ministry of Health has real opportunity to exercise its power beyond the objective of quality health care - for example, to address the negative financial results of healthcare establishments, many of which are a result of delayed payments to suppliers in the sphere of these sub-delegated agencies. Another possibility of intervention is related to the health insurance system and the indebtedness of healthcare establishments due to activities affecting persons without a status in the healthcare system due to delayed contributions or lack thereof.

IV. Equitable treatment of shareholders and other investors

In Bulgaria, the statutes of all state-owned enterprises declare that minority shareholders have a right to convene an extraordinary general meeting of shareholders if they collect at least 5% of the capital for this purpose. It is common practice for them to take advantage of their right to include new items on the agenda of the general meeting of shareholders.

The survey found that, in most cases, state-owned enterprises did not submit a declaration on corporate governance practices under the guidelines by OECD or under the recommendations of National Corporate Governance Code, referring to a letter of Financial Supervision Commission No. 93-00-1486 of 03.02.2017. In just one case, a professionally prepared corporate governance statement is presented (Hospital Tsar Ferdinand I, Iskrets), and in another one case – a good corporate governance program (Specialized Hospitals for Rehabilitation – National Complex, Sofia).

For the protection of shareholders' rights, there are two cases:

- In the case of capital increase with in-kind contributions, such as expensive equipment or real estate, only the share of contributing shareholder is increased.
- For shareholders who participate with proxies at general meeting of shareholders, the meeting expenses are borne by proxies themselves. In case of personal participation by principal, the meeting expenses are borne by the entity.

V. Stakeholder relations and responsible business

In Bulgaria, for the first half of 2018, the Minister of Health issued 257 acts with which exercised the rights of the state in governance of state-owned enterprises with over 50% state participation in equity (Ministry of Health, 2018). At the initiative of the Minister (the Principal), have been conducted eight extraordinary general meetings of shareholders in healthcare establishments.

The incomes from state ownership are included in non-tax revenue, together with revenue from government fees and penalties. For the first half of 2018 an amount of BGN 2.8 million (approximately EUR 1.4 million) were collected as incomes from state ownership or 14.7% of all revenues (Ministry of Health, 2018).

VI. Disclosure and transparency

In Bulgaria, the state-owned enterprises publish annual reports endorsed by external auditors. In most cases, the financial results are presented based on International Accounting Standards, which allows carrying out a comparative analysis both outside state ownership and outside of Bulgaria. The annual financial statements are published in the Commercial Register at Registry Agency. For public disclosure of performance by state-owned enterprises, the National Audit Office carried out planned audits. For 2016, only six state-owned enterprises did not submit their annual reports to the Ministry of Health (Bulgarian National Audit Office, 2018).

Conclusions and recommendations

State-owned enterprises, unlike the private sector, are established to perform social functions and contribute to generating public goods while positive financial results remain in the background (Nedelchev, 2004). The effects of state-owned enterprises are difficult to evaluate, and a prolonged period is required for their performance and reporting. Due to this fact, the degree of economic development of a country can be judged on the governance of state ownership. For the healthcare sector, an additional factor in the dilemma of two objectives should be taken in mind the difference in their time frame – the financial results are annually while public goods – long-termed and permanent.

The new reality puts the need to update the guidelines for good corporate governance practices of state-owned enterprises. The effects of the global financial crisis and the trends in demographic development are the main factors to be taken into account when managing state-owned enterprises. In this sense, the recommended nature of OECD Guidelines contributes to their widespread application and to the creation of a basis for comparative analyzes across sectors and countries.

Bulgaria's new priorities, related to OECD membership and to the Euro area, determine the importance of our survey. Modern corporate governance practices in state-owned healthcare establishments are primarily aimed at achieving financial results rather than generating public goods. Our survey has a pioneering character and the data can be used in future developments on the chosen topic, for example in other sectors of the Bulgarian economy. It would be interesting and beneficial to repeat the same study after a certain point in time in order to establish the dynamics of good practices.

The data from our survey find that the leading role in corporate governance of state-owned enterprises in Bulgaria has the external environment in the face of international organizations – it is clear that good practices in Bulgaria are mainly the result of recommendations by international organizations with the leading position of the Organisation for Economic Co-operation and Development. National practices are adapting to global changes, while policies continue to reflect the transient nature of the economy. For the Bulgarian reality, the main factors of the external environment in formation of practices of corporate governance of state-owned enterprises are the concentrated ownership of the state, the social orientation of state ownership and the importance of healthcare for economic development.

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